INVESTING IN PEOPLE

Creating a Human Capital Society for Ontario

PANEL ON THE ROLE OF GOVERNMENT

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Premier Dalton McGuinty
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Dear Premier:

I am writing to you in my capacity as Chair of the Panel on the Role of Government. On behalf of the Panel, I am pleased to submit to you our final report: "Investing in People: Creating a Human Capital Society for Ontario".

As you know, the Panel was established in January, 2002. The mandate of the Panel was extremely broad. We were invited to examine the future role of government in the context of promoting economic growth, strong communities, fiscal responsibility and accountability.

We were specifically invited to address the following issues:

- the role of the state
- the nature of its role in making policy, regulations, setting standards, monitoring and reporting to safeguard the public interest
- its appropriate lines of responsibility: what and how it should start doing, stop doing, or keep doing either on its own or in partnership with others
- value of the Public Service
- general principles for any non-tax revenue generation by government
- opportunities for citizen engagement.

Initially, the Panel was invited to provide its report to the Premier by July, 2003. However, our work was suspended for several months during the period April, 2002 to September, 2002 during the transition to a new Premier, and this necessitated a six month extension of our mandate.

Once our mandate was confirmed in September 2002, the Panel, in association with our Research Director, Professor Michael Trebilcock, commissioned a broad range of research studies on certain aspects of the future role of government. Assisted by a Research Advisory Committee composed of leading national and international scholars of government, the Panel commissioned 50 different studies by distinguished experts in four key thematic areas:

- responsive government, responsible citizens,
- education,
- internationally competitive business environment, and
- healthy communities.

It should be noted that the individual researchers enlisted by the Panel represent a number of different intellectual and philosophical perspectives on the appropriate role of government in modern society. It is our view that this diversity of perspectives contributed to the richness of our deliberations and, ultimately, to the quality of our report.

The research studies commissioned by the Panel were subjected to extensive and intense review and criticism by Panel members and by our research staff during a series of workshops held during the summer of 2003. Following the research workshops, our commissioned researchers were invited to revise their studies to take account of concerns and perspectives raised, and to submit final drafts to the Panel for consideration. Copies of these reports have been posted on our website http://www.law-lib.utoronto.ca/investing/index.htm.

On the basis of the commissioned research, the Panel decided to organize its recommendations regarding the future role of government around the theme of promoting a human capital society. In particular, the Panel decided to frame its core recommendations around priorities in education, cities, and civic engagement. We were informed that the priorities contemplated by our report entail an additional annual public expenditure of $2.7 billion.

We also explored a series of initiatives focused on reforming the tax system, re-allocating existing government expenditures and improving the provision of government services. In the Report we discuss how these initiatives enable the expenditures on the new priority areas to be implemented, over time, in a fiscally prudent manner.

In arriving at our final recommendations, the Panel benefited greatly from a comprehensive synthesis by our research staff of the myriad research studies that we commissioned. Panel members debated vigorously amongst themselves and with staff respecting desired reforms. The staff study is posted on our web site, and is available for public review.

In offering our report to you, I wish to acknowledge the dedication and public spiritedness of each of our Panel members. Each member brought a unique and important perspective to our deliberations. Despite their volunteer status, and the onerous and sustained set of demands that were placed on their time and energies over the last two years, they each served the Province with enthusiasm, distinction and good cheer.

I would also like to note that the Panel benefited from the contributions of Rita Burak (Chair of Hydro One) and Richard Dicerni (the Acting President of Ontario Power Generation). Ms. Burak and Mr. Dicerni were originally appointed to the Panel but were, unfortunately, unable to remain on the Panel during its final deliberations given the extension of our mandate and the press of other public responsibilities that they were required to fulfil.

I also wish to acknowledge and thank the Panel's Research Director, Professor Michael Trebilcock, and his research staff, particularly Professor Andrew Green and Mr. Roy Hrab, for the extraordinary efforts they made on our behalf. Our task in discharging such a broad-ranging mandate was greatly assisted by their diligence and energy. We are in their debt.

Let me close by indicating the total cost of this report and its underlying research. Over the past two years, against a committed budget of $1.8 million, we spent $1.5 million on the fifty commissioned research studies and on research staff support. Ultimately, the determination of whether these expenditures are justified by the corpus of work that we are submitting to your government is a matter that is best remitted to the citizens of Ontario, to whom this report is dedicated.

Yours truly,

Ronald J. Daniels

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PREFACE

The Ontario Government appointed the Panel on the Role of Government in Ontario (the "Panel") in January, 2002, to examine emerging challenges likely to confront the province of Ontario over the next 10 to 15 years and to propose broad policy directions or priorities that would enable Government to be responsive to these challenges.

At the commencement of our mandate, we consulted widely in the policy community in Ontario and beyond in order to define the thematic focus for our work and to develop a strategic plan. In the light of the advice received, we commissioned 50 background research papers from leading scholars and analysts in Ontario, from elsewhere in Canada, and from other countries in an effort to obtain the very best ideas on the role of government and, further, to identify current best practices in policy design and delivery. We sought to do so from a broad comparative perspective (see Appendix D for a list of the research papers). We gave the authors of these background research papers full reign to present their own views on the issues that they were investigating. Subsequently, we invited our research staff to provide a synthesis of this research and to draw their own conclusions from it. The views expressed in the background papers and the staff report do not necessarily represent the views of the Panel members; the position of the Panel is set out in this document. Nevertheless, we regard the creation of this extensive body of research, including the workshops in which the research was reviewed, evaluated and tested by ourselves, staff and other experts, to be a fundamental component of our contribution as a Panel.

In developing our own views on the themes and issues within our mandate, we debated vigorously amongst ourselves, with the research staff, and with individual researchers. The debate was perhaps an unsurprising consequence of the breadth of our mandate. There are, without doubt, innumerable ways of approaching the question of the role of government. Government has traditionally played a wide range of roles in Canadian society, including regulator, funder of services, provider of services and forum for collective decisions. There is, at the same time, an on-going recognition of the need to balance the roles of government with the freedom, and responsibility, of individuals to make choices and become involved in our communities.

The government is vested with myriad roles and responsibilities in the lives of the people of Ontario. Out of this complex network of roles and responsibilities, the theme for this report emerged: investing in people in order to strengthen the human capital of Ontario's citizens. We believe this theme provides the foundation for framing the appropriate and respective roles of government and individuals in the coming years. There will inevitably be aspects of the role of government, or areas of government action, that are not captured in this report. We believe, however, that the creation of a human capital society in Ontario will make the greatest difference to the lives of Ontarians in the coming years.

The recommendations set out below reflect a substantial consensus amongst us on both the major challenges likely to confront governments in Ontario over the next 10 to 15 years, and the broad direction of appropriate policy responses to these challenges. Our recommendations are intended to serve as a general set of priorities that the government should seek to implement in stages over the next 10 to 15 years.

In some instances, we have recommended the creation or strengthening of intermediary bodies, such as specialized oversight bodies in the fields of education and health, to monitor and assess various publicly-sponsored activities. This is in keeping with the dual nature of our mandate: to examine all aspects of the role of government and to balance the role of government with the interests and the roles of directly affected individuals and other stakeholders. In a number of cases, such as in education and health services, the direct recipients of services (e.g., children, patients) are unable to express their concerns and priorities to government in a meaningful way. In these cases, broadly conceived citizen interests go without voice and the dialogue occurs largely between the government and special interest groups. It is our view that, in these circumstances, an intermediary body can help play a broader representative role and can provide an objective perspective that is without inherent conflict of interest. At arms-length, and outlasting any one government's mandate, such bodies can: offer a system-wide perspective, as well as examining or monitoring local experience; provide advice on standardized performance management frameworks; research, develop and identify local and international best practices that can be adopted; undertake benchmarking versus other jurisdictions (e.g., system and provider efficiency); and provide a mechanism for transparency through regular reporting. In our view, these groups are an increasingly important component of modern, responsive government.

We also wish to emphasize, by way of prefatory comment, that we engaged primarily in a "blue sky" exercise that has drawn on the best consideration, analysis and experience in Ontario, the rest of Canada and abroad, as well as on our own experience and knowledge, of the various issues canvassed here. However, the recommendations set out below have not been subject to testing, probing, and debate through any process of widespread public consultation. In submitting this report to the Premier, the Panel considers that it may be appropriate for the government to contemplate initiating a robust process of public consultation and debate around the challenges identified and the broad direction of the policy responses set out herein.

INVESTING IN PEOPLE: CREATING A HUMAN CAPITAL SOCIETY

PART I. ENHANCING OUR POTENTIAL

A. *Ontario as a Human Capital Society*

In the years since the Second World War, Ontarians have built a strong, vibrant society that reaches a level of excellence envied, but rarely surpassed, around the world. We have created high-quality and accessible education and health-care systems. We have welcomed and integrated wave after wave of immigrants and have harnessed their energies and talents. At the same time, we have been fortunate to have the opportunity to enjoy and develop abundant natural resources. The accomplishments of the postwar era are indeed proud monuments of success. But that season is ending and another is unfolding ahead of us.

In the next 10 to 15 years, Ontario will face an array of new challenges that will test its ingenuity and capacity for change just as surely as those that confronted earlier postwar generations. As a province, we must confront the complexities of broad ranging and rapid change in the realms of international economic competition, urbanization, technological advancement, demographic shifts and even in the nature of family life itself.

To build on its strengths and seize the opportunities of the future, we believe that Ontario must work to create a climate in which the full individual potential – that is, the "human capital" – of Ontario citizens is encouraged, nurtured and recognized by government. We conceive of human capital in its broadest sense. It includes the economic skills, the knowledge, and the professional and personal experiences that enable Ontario citizens to participate and compete effectively in the labour force and to contribute creatively and imaginatively to our economic prosperity. Human capital also includes the social and political capabilities of individuals that enable them to participate, thrive and better assume their individual and collective responsibilities in a diverse democratic society and thereby to enhance the common good. It allows Ontarians to make effective individual and collective choices in their lives as they work together to shape a future that meets their needs. Through the adoption of policies designed to enhance human capital, we believe that Ontarians will achieve higher levels of public contribution and private fulfillment.

What assistance and direction, then, do we expect of the province's government as Ontarians begin this journey into the future? We believe Ontario must make changes to its governance structures and institutions to cultivate a climate in which its citizens are able to realize their full potential and in which individuals, and society as a whole, are able to capture the opportunities before them. Ontario's institutions are critical to the capacity of individuals, and to the province, to attain the benefits of highly developed human capital.

We also believe that Ontario must incorporate several key principles into the governance structures of the institutions that are designed to promote human capital: transparency, accountability, responsiveness and choice. These principles must underlie the governance arrangements of the Ontario government itself and also of its agencies, municipalities, partners -- such as public-private partnerships -- and related sectors such as health, education and social services organizations. These principles allow decisions to be made in a fair and efficient manner and empower citizens to make informed decisions about their lives. They are necessary to build the human capital of Ontarians.

Our focus on human capital reflects the reality that Ontario is operating in an increasingly globally-integrated environment. This integration creates a challenge for the province. Ontario must invest in the human capital of Ontarians while recognizing that Ontarians have the option to move to other provinces or countries once they have developed their human capital. Therefore, we must work to create a society in which the jobs, amenities and fiscal environment attract (and retain) investors and immigrants, and which very deliberately builds upon our strong foundation and competitive advantages, such as stable and humane communities, a tradition of tolerance and decency, abundant natural resources, environmental quality, and a dependable commercial and judicial climate. We believe this report lays out the broad directions and key elements leading to such a society.

While all countries face similar challenges and opportunities relating to the development of human capital, not all countries are similar in their ability to seize and develop the potential of their citizenry. We believe that as Ontario further deepens its commitment to the full possibilities of its citizens, the province's political, cultural and social traditions will provide Ontario with a distinct and compelling advantage.

While attention to human capital will provide enormous benefits to Ontario, a commitment to the realization of the vision that underpins this report will necessarily entail new public expenditures. We are fully aware of the financial challenges posed by the adoption of these policy priorities. Nevertheless, we believe that the vision embedded in this report can be achieved in a fiscally prudent manner. The challenge is to work diligently and assiduously to reorganize and restructure our policies, programs and institutions so that scarce public funds are used as prudently as possible.

Moreover, Ontario will be required to make tough choices in order to realize the full potential of Ontarians and Ontario in a responsible, sustainable manner. For example, health expenditures have risen rapidly over the past 40 years and have become the dominant item in the provincial budget. Health care spending by the province has significantly overtaken education as a percentage of the budget (see Figure 1), and this trend will have to be confronted if the visions implicit in our report are to be realized. In a climate of scarce fiscal resources, the tough choices in health care and other areas will require that the province recognize the need to reduce or constrain expenditures in areas that do not further the human capital priorities we have highlighted.

Part II of this report opens with a call for a mandate focused on the full realization of the talents, aptitudes and competencies of Ontarians. It goes on to outline three key areas that the provincial government must attend to in order to foster a human capital-centred society: the education system, Ontario's cities, and civic engagement by Ontarians.[1] This report does not advocate a return to "big government", nor does it support a narrow focus on rights and minimal government. Instead, it highlights the importance of understanding the role that a variety of institutions can play in building a stronger, more vibrant and prosperous province. These institutions include government, the private sector, community organizations and families. Part III of this Report addresses improvements in the way that government provides services and the need to make difficult choices across priorities. Part IV then addresses the path for moving Ontario forward towards a human capital society.

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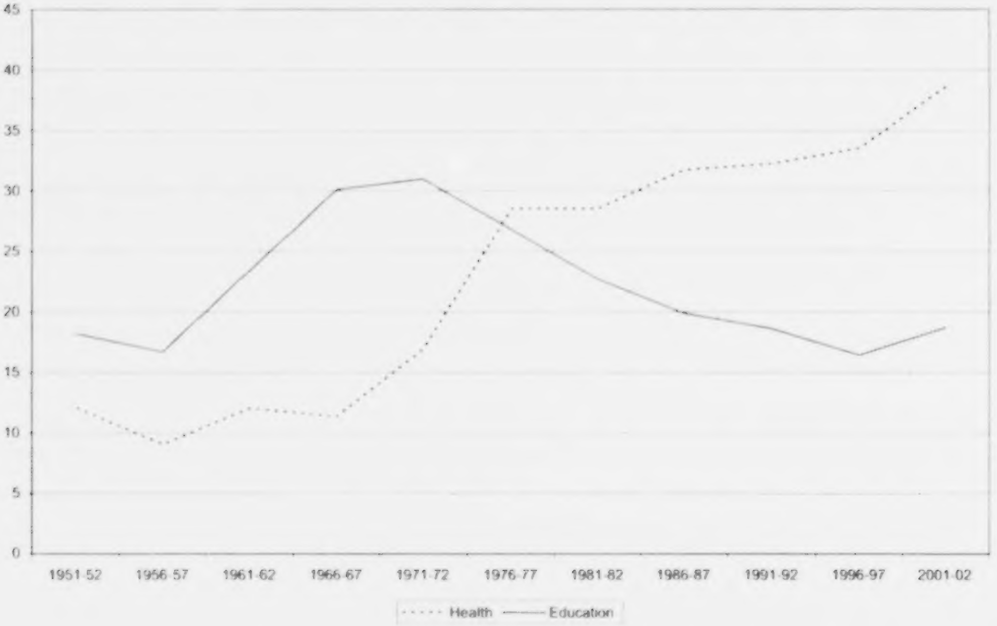
[1] The specific recommendations are set out in the text below in italics.

Figure 1: Health and Education Expenditures in Ontario, Percentage of Budget, 1951-52 to 2001-02



Source: Graham White, "Change in the Ontario State 1952 - 2002," (Research Paper No. 8, Panel on the Role of Government, October 2002)

B. The Changing Nature of Ontario and the Need for Enhanced Levels of Human Capital

An examination of postwar development in Ontario reveals staggering societal changes. In the 50 years from 1951 to 2001, Ontario's population nearly tripled, growing from 4.6 million to 11.4 million. Over this period, the province has also experienced tremendous growth in the racial, religious, ethnic and cultural diversity of its citizens. This increased diversity is due mainly to the steady inflow of immigrants from a wide range of countries. Indeed, Ontario, and in particular its cities, has become the destination of choice for the majority of immigrants to Canada. Over the 1990s, for example, Ontario took in approximately one-half of the over 200,000 immigrants arriving in Canada each year. Immigration in Ontario is highly concentrated; 90 percent of its immigrants have settled in six urban areas. Immigration accounts for over 75 percent of Toronto's population growth. In 2001, 44 percent of Toronto's population were immigrants. These immigrants provide skills and energy to Ontario, but they also face a range of risks upon entry to our province. The most significant of these risks is related to uncertain employment prospects and unrecognized professional credentials. When these concerns are combined with the realities of an aging population, a wider range of family and work arrangements, growing income inequality and homelessness, the need for bold public action becomes compelling.

Ontarians have been migrating to the cities for some time. Urbanization has been the story of Ontario and Canada -- like other OECD countries -- both socially and economically over the post-War period. Ontario's urban areas generate most of Ontario's economic activity and are home to the majority of its population. Canada's ability to compete in the global economy is increasingly tied to the health and wealth of its cities. The percentage of Ontarians living in cities with more than 10,000 people increased from just over 50 percent in 1951 to over 80 percent by 2001. This urbanization raises a number of concerns, notably the fiscal capacity of cities, the impact on the environment, and the future viability of rural and remote communities.

Ontario's business environment has also changed dramatically during the postwar period. Two overlapping trends have created and will continue to create opportunities and challenges for the province. First, Ontario is now part of the "new economy". In the postwar period, Ontario's economy has shifted from one based heavily on natural resources, such as mining, agriculture and forestry, towards one dominated by the service sector, including financial services, education, communications and health care. For example, in 1955, primary and manufacturing industries in Ontario accounted for 52 percent of employment. By 1981, this number had fallen to 35 percent of total employment and in 2001, the number had dropped to 20 percent. Over this same period, the services sector increased its share from 48 percent of employment in 1955 to 73 percent in 2001. Changes in technology have played an important role in this transition, but have also presented a host of challenges, such as new workplace risks and a widening wage gap due to enhanced returns to human capital.

Second, Ontario's economy has become increasingly tied to, and integrated with, the economies of other nations, particularly that of the United States. In 1950, 60 percent of Canada's exports were shipped to the U.S. By 1998, over 90 percent of Ontario's exports were shipped to the U.S. These export statistics demonstrate Ontario's considerable dependence on the continuation of open and unfettered access to the U.S. market. Because of Ontario's breadth of access to the U.S. market, Ontario has been able to attract both the skilled workers and the capital investment that it requires. But Ontario also faces competition for workers and capital. This dynamic of opportunity and competition underscores the importance of developing congenial economic and societal conditions for educating, attracting and retaining workers, researchers, entrepreneurs and investors.

As these changes have occurred in the postwar years, Ontario has simultaneously been experiencing a disturbing trend of civic disengagement from the traditional political process. Fewer Ontarians vote in elections now than did so in the 1950s. Voter turnout is lower for provincial than federal elections and is lower still for municipal elections. Moreover, opinion polls indicate that Ontarians feel they lack power and influence over political decision makers. While some Ontarians engage in non-voting forms of political debate, such as demonstrations or appearances before tribunals, the Ontario government must address this general disaffection if it is to make informed, politically legitimate decisions on the emerging issues.

The array of disparate challenges now confronting Ontario is exerting a profound effect on the economic prospects, political commitments, and social linkages of Ontarians. We believe that it is incumbent upon the government of Ontario, in concert with Ontario's citizenry, to focus on these challenges. We further believe that the most effective response to these challenges is to shape a society that is conducive to the full development of human capital.

The most direct benefit to be derived from increasing societal levels of human capital is the expansion of economic opportunity, a boon to both the individual and society. As will be discussed below in Part II of this Report, a critical means of increasing human capital is through enhanced education. At the individual level, enhanced education generally results in higher income, broader employment opportunities and a reduced risk of unemployment. Enhanced education can also operate to reduce income inequality. Enhanced education decreases the supply of low-skilled workers, reducing downward pressure on their wages.

A focus on human capital can also improve the collective ability of our educational systems, income-support policies, immigration system and labour practices to recruit and deploy the workers needed to foster economic growth for Ontario as a whole. Human capital is critical to the creation and adoption of new technology and to the promotion of innovation. Highly educated workers maintain greater levels of productivity and, through their interactions with other highly educated workers, they create a chain effect of increased productivity. Enhanced human capital also strengthens the tax base of the province, allowing the financing of a broader range of social priorities.

An enhancement of human capital is also associated with a range of important non-economic benefits, and the rationale for the promotion of a human capital society extends beyond the economic realm. For example, education imparts higher levels of dignity and self-worth to the individual. Education also enables individuals to make better, more informed choices for themselves – choices that are informed by our basic liberal democratic values. And, of course, education enables individuals to make better choices for their dependents, including children and aging parents. We know, for example, that educated parents are more likely to raise children who, in turn, are educated, and who are themselves able to enjoy the gifts of learning.

Apart from the instrumental and intrinsic benefits that accrue to the individual and his or her family from education, education also confers very tangible benefits on society at large. The educated citizen, for instance, is better equipped to participate fully and actively in our society. Education helps to foster social cohesion, or common interests, among Ontarians. It enriches our capacity, and desire, to better understand people of other cultural, racial and religious backgrounds. It enables us to better understand the political process and to make informed decisions about the important political choices that confront us. Thus, an investment in human capital promotes an engaged and informed citizenry that is better able to contribute to societal debate and development.

PART II FOSTERING A HUMAN CAPITAL SOCIETY

A. Strengthening Education

Education is the bedrock of a human-capital society. It is the base for the development and expansion of human potential and can provide individuals with the means to realize the full promise of life in Ontario, economically, socially and politically. While Ontarians can increase their human capital through venues other than education -- such as interacting with others in their community, learning on the job, or reading and other forms of self-instruction -- a high quality, accessible education system is essential in order to fully exploit the potential advantages of human capital in Ontario. While not every Ontarian needs a graduate degree from a university, every Ontarian should have the opportunity to obtain the education necessary to live the life that he or she values.

The importance of a strong education system to Ontario is clear. What is less obvious is how to ensure that the system provides high-quality learning to all Ontarians. The role of government in education is a contentious issue. We believe that government must provide for, and balance, scope for citizen "voice" and "choice" in education. "Voice" is the ability of individuals to express their opinions on education to decision makers through means such as voting, political discussion and parent-teacher meetings. "Choice" encompasses the ability of individuals to decide among different options for educating themselves or their children, such as moving a child to another school because of dissatisfaction with an existing one. Both choice and voice have conceptual limits. Voice will not aid individuals who do not have the education or information to express their preferences. Choice will be hindered where individuals do not have the information or financial ability actually to take advantage of the opportunity to choose. However, voice and choice can work in tandem. Each has its strengths and each can, in turn, strengthen the other. For example, the threat of leaving a school – i.e., choice -- provides incentives to decision makers to take into account a parent's preferences -- voice.

The key to providing high-quality education to all Ontarians is to provide opportunities for parents, and their children as they grow older, to exercise both voice and choice. We believe that the mix of the two will depend on the particular type and level of education being provided.

(i) Providing the Basic Building Blocks: Early Childhood Education

We believe that strengthening early childhood education and care (ECEC) is central to the development of a human capital society in Ontario. ECEC refers to the various programs and arrangements, other than compulsory schooling, for educating and caring for children from birth to six years old. High-quality ECEC is fundamental to the development of children and has been demonstrated to impart long-lasting economic and social benefits, such as increased productivity and health outcomes. A wide range of studies have shown that high-quality ECEC has positive effects on all facets of child development, including cooperating with adults, socializing with other children, early competence in reading and math, and school readiness. Indeed, the returns from early investments in education may be greater than returns from later stages of education.

High quality ECEC can play a particularly important role in aiding children from disadvantaged backgrounds. It provides an opportunity for a strong start and the potential for greater equality of opportunity in later life. It is clear that the failure of some of our children to acquire fundamental skills and aptitudes at an early stage in their lives will inflict irremediable lifetime disadvantages. It is simply unacceptable that some segments of society should be systematically deprived of our province's myriad opportunities. While children from disadvantaged backgrounds are likely to have the most to gain from strong ECEC programs, children from all socio-economic backgrounds can benefit through the acquisition of school readiness, social skills and basic competencies. Further, accessible ECEC programs can open opportunities for parents who wish to work.

Judging from best practice in other jurisdictions, we believe that the Ontario government should have two priorities regarding ECEC.

(1) We recommend that senior and junior kindergarten be made full day, with lunchtime supervision included. These programs would be phased in over time, as resources permit, initially beginning with full day senior kindergarten, followed by full day junior kindergarten. These programs should be free of charge and non-compulsory. Schools may charge parents for use of complementary services, such as after school care, but we recommend the provision of provincial funding for complementary services to ensure that these programs are available to all families.

Public provision enhances accessibility to kindergarten. Much of the structuring of the program would therefore rest on voice, although the discussion of choice in the report's section on primary and secondary education applies to kindergarten as well. For example, an auditor, or oversight body independent of the Ministry of Education, would aid in providing accountability and transparency in these programs. Such a mechanism would enhance choice and voice through the provision of information.

(2) We recommend that the Ontario government provide funding to permit the development of a network of affordable, high-quality ECEC services below kindergarten age, possibly pursuant to a newly developed provincial children's agenda. These services would be phased in over time, as resources permit, initially beginning at age three with the option of moving downwards to provide care to younger children if warranted. The funding of these various services should come from a combination of public and private financing, with a sliding scale under which people with higher incomes pay more. Further, the public money should be tied to a facility's ability to attract and retain children.

The combination of public and private funding of a range of services (e.g., licensed daycares, nursery schools and in-home caregivers) should expand accessibility to high quality care, enhancing both voice and choice. Such services would also benefit from an independent oversight body.

(ii) Strengthening Primary and Secondary Education

While strong ECEC is pivotal to a child's start in life, these benefits need to be nurtured through the primary and secondary school system. Primary and secondary schooling develops literacy, math skills and scientific knowledge. Ontario's students, on the whole, place well in international testing. In particular, they perform much better, on average, than students in the U.S. (although there can be considerable differences between U.S. states) However, there are areas of concern. Ontario trails a number of other countries and provinces, in particular Alberta and Quebec, in testing scores. Further, there is a large gap in literacy scores in Canada between those who complete high school and those who drop out and in testing scores between English and French students in Ontario. It is not a lack of resources that has led to Ontario failing to lead the pack. Ontario's spending per student is high relative to the OECD and G-7 countries and is higher than any other province in Canada. Ontario must not be complacent and must attempt to lever its high level of funding into a continuously improving, accessible education system.

Further, while many of the fundamentals of education, such as learning to read and write, are constant, other needs of students and ideas about education, change rapidly. For example, the educational needs of a community can change dramatically if the proportion of students for whom English is a second language increases. The school system must be able to adapt to these changing needs. It must also encourage innovation in teaching to ensure that schools and teachers are able to identify and implement the best methods to enhance student learning. Currently, parents express their preferences through voting in provincial or local elections, which has only a tenuous connection to the performance of particular schools. Parents may also express their views to school councils, schools boards, school administrators and teachers. The current system fails to provide parents with an effective voice because of the weak role for school councils, which include parents. The inability of parents to influence (in an appropriate manner) the conduct of their children's public schools undermines school accountability to the citizens who are directly affected by its activities. Although there has been and will always be vigorous debate surrounding the ideal nature of basic education, the research establishes clearly and convincingly that one basic tenet is critical for a good system of education: meaningful accountability to parents through effective governance arrangements. It is our view that these governance structures are sorely lacking in Ontario and are impairing the performance of our schools. In short, we suffer from a democratic deficit in our system of education governance that must be corrected.

Consequently, we believe that Ontario should make a number of changes to its primary and secondary school systems to improve both the choice and voice options available to parents.

(3) We recommend raising the age at which students can leave school or other forms of training from 16 to 17, and perhaps subsequently 18, unless they graduate first.

This recommendation actually reduces an aspect of choice – the choice of when to drop out. Research has shown that students who remain in school for a longer period of time enjoy a range of economic and social benefits not enjoyed by students who leave school earlier, provided that programs are made available to accommodate students' interests and aptitudes. In a human-capital society where there are high returns (both private and public) to education, the rationale for allowing individuals to choose to leave school at 16 is weak and must be re-considered.

(4) We recommend that the province re-introduce external curriculum-based exit exams for high school graduates as part of an expanded package of outcome-oriented performance indicators. These indicators should be relevant to parents, students and employers.

A fundamental element of the changes to primary and secondary education should focus on the information that individuals have about their own and their children's education. Exit exams, as recommended here, would comprise only a portion of a student's grade. This testing would lead to improvements in student performance in the grades below the testing levels, prevent "grade creep" (where schools, year over year, tend to increase grades in an effort to strengthen the competitiveness of their students in securing entry into college or university) and would provide parents, schools and administrators with clear and comparable information needed to identify institutions that are working well and those that are struggling. Moreover, such a system would provide students and post-secondary institutions with better information on an individual's career options.

(5) We recommend a series of reforms to primary and secondary school governance arrangements:

- *The province should continue to set overarching curriculum and general policy directions.*
- *The province should revitalize school boards in order to ensure there is an effective intermediary body between the province and individual schools. School boards are currently far too distant and unresponsive to stakeholder concerns —few people know who their trustees are or understand what they do.*
- *School trustees should have higher salaries to reflect their new responsibilities.*
- *The province should explore an array of alternatives for the appointment and election of trustees to ensure greater accountability to a broad range of stakeholders.*
- *Boards should play a key role in the coordination of the actions of schools in their jurisdiction, aiding these schools in continuous improvement by sharing information and best practices and providing flexibility for schools to adapt to local preferences.*
- *Every public school should be required to have an active school council with a clear mandate. The school council should be comprised of the school principal and parent and stakeholder representatives.*
- *Schools should enter into three-year performance agreements with their school board using a standardized set of criteria to ensure that school leadership is held*

accountable against mutually agreed upon goals. These criteria would be developed by the third party body, discussed below.

We strongly believe that public funding of primary and secondary education is essential. However, we also believe that transparency, accountability and choice mechanisms in the primary and secondary system must be enhanced if there is to be improvement. It is clear that there is a need for a strong intermediary institution between the provincial Ministry of Education and local school councils and, in these terms, the current board system is deficient and must be revitalized. Further, while school councils currently exist, the province should focus on ensuring they are engaged and active – that is, capable of the significant governance role they must play in a strong school system. The governance changes in the above recommendation are intended to aid in clarifying and strengthening the roles of the various parties in the education system: the province, the boards, principals and parents. The performance agreements are the means to create the information and incentives necessary to draw all these parties effectively into the governance of our schools.

(6) The majority of the Panel recommends that the province accord to parents, on a trial basis, the ability to initiate a limited number of charter schools within the public school system. In accordance with the principles of universal access, there must be no additional private fees for attending any schools initiated under this pilot program.

We believe that with the changes to school boards and councils, the existing system should be capable of innovation in improving educational outcomes and meeting parental expectations. However, experimenting with charter schools will enable the province to determine if it can realize the advantages that charter schools appear to provide in other jurisdictions.

(7) We recommend that the province create or extend the authority of a third-party or independent body to monitor the functioning of the educational system, including ECEC programs, the Boards of Education and the schools. Membership in this body would be drawn from stakeholders and from persons with a broad range of relevant professional expertise. The design of this body would take into account the potential for conflict of interest that can arise when a single body is vested with both standard setting and auditing functions.

This body could take the form of a strengthened Education Quality Assessment Organization (EQAO). The mandate of this body would be two-fold: to administer and collect information on testing and to provide timely information on performance to parents, the Boards and the Ministry of Education. The monitoring process would include downstream indicators of performance by following student progress through the education system over time and post-graduation success in the labour market.

(iii) Promoting Excellence and Accessibility in Post-Secondary Education

Post-secondary education provides a variety of benefits to individuals and to society. The individual receives economic and social benefits, such as increased income and greater job opportunities. Society obtains increased economic growth through innovation and research and, if structured properly, equality of opportunity for economic success. Canadian spending on post-secondary education is the second highest in the OECD, behind the U.S., although Canada spends far less than the U.S. on university education and more on non-university post-secondary education, such as college education. In 2003, Ontario's spending on universities was last among all provinces on a per student or a per capita basis. Further, its funding of post-secondary education per student falls dramatically behind many public universities in the U.S. These problems are further constrained by onerous restrictions (currently, a proposed prohibition) on the capacity of universities to set tuition levels subject to effective safeguards relating to student accessibility. For the last several years, not only have the province's universities been unable to seek to reduce the large resource gap that exists between our institutions of higher learning and our international peer group, but Ontario universities have been unable even to maintain the real value of their tuition schedules against inflation.

Not surprisingly, these revenue constraints from both public and private sources have resulted in dramatically expanded class sizes; reduced capacity to recruit the best available faculty to replace retiring faculty; reduced capacity to hire additional faculty in response to new and pressing social and scientific priorities; neglected and rapidly deteriorating physical infrastructure; constrained capacity to undertake cutting-edge research; and less effective student support services. For instance, whereas faculty student ratios in basic arts and science programs in Ontario's universities are currently approaching a historically unprecedented level of 30 students to 1 faculty member, peer institutions (both public and private) abroad are enjoying ratios that are half that amount and lower. This cannot help but detract materially from the quality of the learning experience that we offer our students.

In short, in a setting where human capital is recognized as a critical component to individual and societal well being, the province has made decisions that deprive our students of a university system that is commensurate with their talents and aspirations, and with our province's long term economic, political and social goals. Rectifying this situation is an urgent priority.

(8) We recommend a five-part plan to promote excellence in, and to ensure and enhance accessibility to, post-secondary education:

- *The province should increase the amount of public money spent on university education until its spending is, on average, the highest per capita in Canada on a per student basis given the leadership commitment the province should make to human capital development.*
- *The province should tie the amount of additional public funding for each college or university program to performance, based on balanced measures such as student satisfaction, post-graduation success in the labour market, the quality of teaching and research, and performance improvement plans. Assessments for the performance-based funding should be made by an independent expert body.*
- *The province should benchmark its funding of our most promising academic/research programs against comparable programs of international prominence in pinnacle public institutions so as to guide public investments in Ontario's programs once we have achieved a leadership position in Canada with respect to government support for universities.*
- *The province should deregulate tuition fees subject to every university and college governing council demonstrating that they have a credible access program in place. The province should require each governing council to make a public report to the government every three years on the effectiveness of its access program.*
- *The province should institute a comprehensive income-contingent loan repayment program. As well, the province should institute a separate enhanced grant and loan program that is aimed specifically at increasing the participation of individuals from lower income backgrounds in post-secondary (college and university) learning and should provide periodic public evaluation of measurable progress towards meeting this goal. Both of these programs should be devoted to ensuring that accessibility to education opportunities, the cornerstone of a human capital society, is maintained and promoted, in the context of deregulated tuition fees.*

The greatest challenges facing post-secondary institutions are the related issues of funding of institutions, the quality of teaching and research, and accessibility. The province should revise its funding and tuition policies to promote excellence and diversity among its institutions and programs. Programs of differing quality should charge differing tuition. Differentiation would aid in promoting excellence and, therefore, offer students greater choice in their post-secondary education. Students should be able to choose between teaching-focused institutions, research-focused institutions and institutions that offer a combination of both. Differentiation and excellence can be promoted through increased funding, particularly on a performance basis, and the deregulation of tuition fees.

At the same time, given the importance of post-secondary education in equalizing opportunities, the province must ensure that individuals are not discouraged from obtaining post-secondary education because of their socio-economic circumstances. The province currently offers a loan program for post-secondary learning, but it is not offered on a comprehensive, income-contingent basis applicable to all levels of post-secondary education. The access, loan and grant programs recommended here are necessary for a choice-based system that does not act as a barrier to low-income students obtaining post-secondary education or training (including apprenticeships). However, the province should not attempt to micromanage post-secondary admissions and program offerings. Micromanagement by the state decreases university independence and can result in lower standards. Institutions should make the decisions about which programs to develop and how to meet the needs of students. Unlike the province, these institutions have the information to make the innovative, specialized and complex decisions necessary to foster excellence.

(9) We recommend that Ontario enter into a Labour Market Development Agreement with the federal government.

By entering into a Labour Market Development Agreement with the federal government, the province will be better equipped to tailor its college programs to the needs of Ontarians. The lack of such an agreement has resulted in employers sponsoring most of the training in Ontario. Employer-sponsored training focuses on that which benefits the employer, rather than necessarily helping the employee adjust to new work conditions.

(10) We recommend that the province continue efforts to promote appropriate integration of colleges and universities in order to foster choice in education.

Some provinces, such as Quebec, Alberta and British Columbia, have implemented plans supporting the integration of colleges and universities (e.g., university transfer programs). However, until recently, there has been limited collaboration between colleges and universities in Ontario.

(iv) Adjusting to Change Through Training

Education and the development of human capital occur not only through formal schooling but also through workplace training and experience. Because of the changes sweeping Ontario, including global economic integration and the shift to the new economy, workers may be required to adjust their skills to the changing demands of the workplace. Not all workers are able to keep pace with, or find employment in, the changing workplace. Many of those left behind are immigrants, in some circumstances because their foreign credentials are not recognized.

(11) We recommend that Ontario increase its use of Active Labour Market Adjustment Policies (ALMAPs) aimed at helping workers adjust to change. In particular, the province should develop policies for the provision of extensive labour market information on such factors as shortages and surpluses in particular labour markets. It should also invest more in ALMAPs, although it should not necessarily deliver them. Further, we recommend that Ontario conclude an agreement with the federal government to devolve the power to design and deliver training and labour market adjustment policies under employment insurance legislation. Finally, as not all individuals will be able to benefit from ALMAPs (for example, they may be too disabled to work), and because it will take time to develop these programs, the province must continue its traditional income-support regime.

Canadian governments have attempted to respond to labour market changes by altering the focus of social programs. Based on the belief that they are unable, and should not attempt, to provide long term and unconditional economic protection to citizens experiencing economic shocks, Canadian governments have steadily reduced their reliance on unconditional income transfers as a way of dealing with often wrenching economic changes. Instead, governments have endeavoured to provide assistance that is more forward-looking in nature, and which is designed to enhance the marketable skills and expertise of dislocated workers, while reducing any disincentives to work. However, Ontario has undergone only a partial shift away from income-transfer programs to programs based on enhanced skills development and forward-looking adjustment. The province has made cuts to income transfers without making full compensatory investments in new adjustment mechanisms. This recommendation is aimed at redressing this imbalance.

(12) We recommend that the province ensure that Ontario's self-regulatory bodies address the challenge of provincial recognition of the foreign credentials of immigrants. To this end, we recommend that the self-regulatory bodies be required to submit an annual progress report to be tabled in the legislature. In some cases, the province may also build on existing bridging or up-grading programs to involve employers, community groups and other stakeholders in the design of transitional programs to aid immigrants to enter the labour market.

If we are to promote the development of a society that is open to the energies, aptitudes and expertise of all, then it is important to address the failure of some of Ontario's self-regulatory bodies to provide appropriate recognition of the professional credentials of immigrants. It is fundamental that Ontario's self-regulatory organizations ensure that public standards of trust and confidence are protected when reviewing the foreign credentials of immigrants. Ontario citizens are entitled to count on the provision of professional services that reflect appropriate and high standards of performance and expertise. However, there is concern that some regulatory bodies have been too zealous in the discharge of these duties and have exercised their accreditation powers in ways that have failed to provide appropriate support and recognition to qualified foreign-trained professionals. Ontario must be able to compete with other jurisdictions in attracting the skilled people it needs. For example, the ability to attract foreign-trained health care professionals will have a profound impact on the sustainability of Ontario's healthcare system. The provincial government is currently examining ways to remove barriers regarding the recognition of foreign credentials. Addressing the barriers within self-regulatory bodies would be an important step.

(13) We recommend that the province, in conjunction with the federal government, eliminate barriers to individuals who seek to leave welfare and to re-join the workforce, by reducing high marginal effective tax rates (such as benefit clawbacks) for these individuals. The province should negotiate with the federal government to redesign the National Child Benefit program as well as federal and provincial tax credit regimes to reduce the disincentive to work.

Income inequality appeared to increase in Ontario in the late 1990s. This increase may have been due in part to a shift in the global economy that placed a premium on skills and caused a rise in the relative market incomes of skilled workers. It may also be due, in part, to changes in tax and transfer programs. Increasing the human capital of Ontarians through education and training should reduce income inequality by decreasing the earnings gap between skilled and unskilled workers. However, governments need to reduce the barriers individuals face when seeking to take advantage of these opportunities.

B. Revitalizing Cities

The second main element in our vision for Ontario is the revitalization of our cities. Urban centres are the main drivers of Ontario's economic growth. Cities play a pivotal role in the knowledge-based economy because they are the chief sites and incubators of innovation. The synergistic relationships between individuals and industries in urban areas enable city-dwellers who have invested in education to increase their return from it. The diversity and amenities of cities attract the talent necessary to generate innovation. Consequently, cities play a fundamental role in the promotion of innovation and economic growth. They also provide a setting conducive to creativity by promoting social interaction and dissemination of tacit knowledge. Further, cities have the concentrations of cultural resources necessary for the production of the cultural goods that Ontarians increasingly demand.

However, Ontario's cities face a host of challenges. Urban sprawl increases the cost of providing services and creates environmental harm. Ontario's cities face increased competition from cities abroad for workers and capital. Many cities have large infrastructure deficits and are experiencing growing income inequality and homelessness. Because cities are the main destination for immigrants, cities bear much of the cost of their integration. At the same time, cities are facing severe fiscal constraints. As a result, we recommend that the province strengthen cities by addressing their financial capacity, their ability to deal with large scale development issues, their governance capacity, their ability to aid immigrants and their infrastructure concerns.

(i) Financial Reforms

(14) We recommend that the province develop appropriate fiscal arrangements to redress imbalances between revenues and responsibilities for Ontario's major cities.

In recent years the Ontario government has transferred a range of program responsibilities to municipalities, creating fiscal imbalances for some municipalities and concerns regarding the autonomy of municipalities in general. In re-assigning responsibilities, the province took over spending on education. However, we believe that the property tax system that municipalities rely upon is an inadequate source of funding for many services. The province should review its arrangements with its major cities in light of recent experience.

(15) We recommend that the province identify new revenue sources for municipalities. These could include a locally set fuel tax used in part to fund public transit, a hotel and motel occupancy tax and increased use of user fees that reflect the true cost (including the environmental cost) of water, sewage disposal and garbage collection.

Municipalities rely heavily on property taxes for their revenue. However, property taxes are, in general, a static source of revenue; they typically do not vary with increases in municipal expenditures. This makes property taxes an insufficient source of revenue for the dynamic nature of the fiscal challenges facing municipalities. Property taxes do not in general reflect use of services and do not fully reflect changing economic conditions, such as increased unemployment, which can increase municipal expenditures. Municipalities need access to new sources of revenue in order to meet the challenges they are facing now and will face in the future. Providing local governments with greater control and responsibility over setting property taxes will improve the accountability and transparency of local government action and provide better incentives for individuals to make consumption choices. Otherwise, equity issues will fall to the province to address.

(16) We recommend that local governments assume full control over (and responsibility for) setting property tax rates. However, we recommend that the province limit variability between residential and non-residential property tax rates, such as by establishing tax rate bands, to moderate both the variability among municipalities and the impact of shifting tax burdens between residential and non-residential property classes.

(17) We recommend that Ontario enhance the powers of the Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA) in order to encourage municipalities to make greater use of debt for long-term capital projects. OMEIFA should assist municipalities seeking aid in sourcing capital.

The province created OMEIFA to provide municipalities with flexibility in capital infrastructure investment and to overcome the reticence of municipalities towards borrowing. We believe that OMEIFA's powers should be enhanced to remove obstacles to municipal borrowing, particularly for long-term capital projects. Future generations should bear some of the cost of creating the infrastructure that will provide them with services. As noted below, the province will also need to develop a strategy to deal with small rural and remote communities that cannot finance necessary capital investments.

(ii) Coordinating Local Governments

In the late 1990s, over 300 municipalities in Ontario were eliminated through amalgamations. In many cases, larger municipalities have the advantage of lower costs. They are also better equipped to confront urban sprawl, a significant challenge facing large Ontario municipalities. Urban sprawl generates increased air pollution from greater use of automobiles. It destroys prime agricultural land through the construction of new housing developments. Urban sprawl affects land use planning, transportation decisions and, as discussed in the section on infrastructure, the costs to consumers of services. While larger municipalities are better able to deal with issues that have impacts over a large area, urban sprawl transcends the boundaries of even the largest municipalities. Small municipalities may, however, have off-setting advantages such as greater transparency, receptivity to citizen voice, and accountability for political decisions.

(18) We recommend that Ontario develop a flexible approach to municipal jurisdiction. A number of the Panel's members agree that this flexible approach may mean new levels of region-wide coordination that could include special purpose authorities (such as for coordination of transportation and land use) or governance structures (such as regional government). This approach should be based on the following principles:

- *accountability and responsiveness of municipal governments;*
- *transparency;*
- *fairness of the cost burden;*
- *capacity for the coordination of services; and*
- *respect for the role of non-elected public officials and clarity about the roles of politicians and staff*

We strongly recommend that the province commence the process of addressing this coordination issue immediately.

There is no single blueprint that fits the needs of all of Ontario's cities. We worry that decisions are currently being made, particularly those that encourage urban sprawl, which will have long-run and irreversible impacts. Ontario needs clear and determinate policies and guidelines that direct population growth to agreed-upon designated areas and restrict intrusion into rural or green spaces, and eliminate rezones based on loopholes, such as so-called adult lifestyle communities.

(iii) Reforming Municipal Government

As noted, we recommend enhanced revenue-raising powers and new responsibilities for Ontario's cities. At the same time, we recognize that there is a need for stronger citizen accountability mechanisms. User fees are one accountability mechanism, as they increase the incentive for residents to monitor the actions of their local government. However, increased reliance on user fees raises legitimate concerns over how these costs are borne and, in particular, whether any regressive characteristics can be modified. In any event, more work needs to be done to increase the transparency of municipal decision making, such as spending and taxing decisions.

(19) We recommend that the province review municipal governance structures with a view to improving accountability and efficiency. Areas for reform include the strengthening of executive powers and of the accountability of municipal officials (elected and non-elected) to the public through a clear demarcation of responsibilities, decision-making power, performance goals and greater transparency.

The Panel recognizes that a one size fits all solution is not possible or desirable. Given that the governance structures of municipalities vary widely, the province must ensure that all cities are capable of effectively using their new authority and meeting these responsibilities.

(iv) Aiding Immigrants

Our vision for the province draws explicitly and heavily on the prospective contributions that new immigrants can make to the prosperity and vibrancy of our community. Ontario is competing intensely with other jurisdictions, including other Canadian provinces, for skilled immigrants. Consequently, workable and creative programs that attract and retain immigrants are required.

We have outlined the economic risks facing immigrants with regard to employment and accreditation. However, immigrants confront further obstacles in the areas of language, housing, health and education. There is a growing recognition of the limits and deficiencies of current immigrant settlement programs. These programs are partially funded by the federal government. At present, approximately 60 percent of immigrants to Canada settle in Ontario, although the province receives about 40 percent of federal settlement funds. The Ontario government recently estimated that the federal government spends $877 on settlement per immigrant in Ontario and $2,632 on settlement per immigrant in Quebec.

(20) We recommend that Ontario, in full consultation and partnership with the mayors of its major cities/city regions, work quickly to negotiate and conclude a specific federal-provincial immigration agreement, as the federal government has done with other provinces. The accord should include a Provincial Nominee Program under which the province participates in the selection of immigrants. Further, the accord should attempt to procure federal settlement funding for Ontario that ensures levels, on a per immigrant basis, that are comparable to similar programs in Quebec. It is also our view that Ontario should clarify the roles and funding of the levels of government in settlement and seek greater control over settlement programs. Finally, Ontario should attempt to shift the focus of settlement programs beyond the initial stages of immigration towards confronting and resolving those barriers arising in the medium and longer term that impede full integration of immigrants into Ontario's economy and society.

(v) Strengthening Infrastructure

In recent years a number of studies have cast light on the declining state of Ontario's physical infrastructure (e.g., water, sewers, public transit, roads, communication systems and cultural facilities). These studies typically estimate that billions of dollars in investment are required to fund adequately the province's needs, most notably in the area of drinking water and sewage treatment. However, estimates regarding required infrastructure investment vary widely; a primary factor in variances in estimates is that information on the current state of infrastructure is poor. Therefore, rather than argue over the existence and magnitude of required investment, we believe the province should focus on ways to plan and finance future infrastructure investment.

(21) We recommend the following to address the infrastructure gap facing Ontario's municipalities:

- *The province and municipalities should coordinate to produce medium and long-term multi-year plans for infrastructure investment with interregional elements.*
- *There should be greater coordination of regulatory requirements for infrastructure programs at the federal, provincial and municipal levels of government (such as in the environmental area) to foster timely investment and long-term planning.*
- *The province should implement strong guidelines and incentives to control urban sprawl, including the restriction of development to designated settlement areas, better use of development fees, increased incentives for brownfields development,*

support for public transit and greater integration of land use and transportation decisions.

- *The province and municipalities should employ user fees for water and sewers, in order to more accurately reflect the costs, including the environmental consequences, of such infrastructure.*
- *The province should ensure that development charges are more efficiently priced.*
- *The province should empower municipalities to levy fuel taxes and create the tax room to do so. Ideally, revenue from the fuel tax should, at least in part, be applied to the cost of public transit.*

Ontario needs to develop a plan for dealing with necessary investments in infrastructure. This plan must include establishing the appropriate incentives for use of infrastructure. Currently, pricing does not accurately reflect the cost of providing basic infrastructure, such as water and sewers. Marginal cost pricing for these services (i.e., pricing that reflects the actual costs required to provide additional services) would conserve resources and would also help to limit urban sprawl. The latter is partially attributable to cost subsidies paid out for providing services in new areas and an over-investment in infrastructure in certain areas as a result of provincial grants.

Development charges are used to pay for the infrastructure required for new growth. Typically, municipalities levy an identical development charge on all properties of a particular type, regardless of where the property is located. However, it is more expensive to provide many services to low density areas than it is to high density areas. A more efficient system would take into account the location of new properties in the allocation of development charges so that the charges reflect the true cost of infrastructure required to service new settlement. This would also help limit urban sprawl and encourage rational growth.

Marginal cost pricing for transportation is more difficult. Full cost pricing for public transit would lead to reduced use of transit and greater use of roadways, as highway and road travel are heavily subsidized. Fuel taxes could simultaneously help correct the incentives for use of both public transit and roads. Levying fuel taxes through the cities would help to maintain political transparency and accountability for the tax.

The need for an effective strategy on affordable housing is the second aspect of infrastructure that the Panel would like to emphasize.

(22) We recommend that the province take immediate action to address the urgent needs of a growing number of homeless Ontarians. The province must redouble its efforts to work with the federal government and municipalities in order to implement the existing national plan for affordable housing. This program should respect the incentives created for both tenants and developers to ensure that the stock of affordable housing is increased. Such action requires both demand-side (i.e., tenant) and supply-side (i.e., developer) initiatives.

Demand-side rent supplements are necessary to leverage personal choice. These supplements should be adjusted to reflect the cost of housing in different communities. Even with these demand-side initiatives, however, a gap will persist between what many families can afford and the cost of building the housing. This is why-supply side actions, such as the elimination of tax and regulatory barriers to construction, are also an important part of an effective strategy for ensuring affordable housing.

(23) We recommend that the province step up efforts to meet the physical and mental health needs of the homeless. This includes more extensive hospital and community-based mental health support, access to addiction services, and the establishment of a larger reserve of transitional and supportive housing for persons with mental health and addiction problems.

Dealing with the problem of affordable housing is a step towards combating homelessness. However, cities, and Toronto in particular, face an escalating homelessness problem, with a burgeoning number of families relying upon inappropriate and deficient facilities, such as shelters. It is our strong view that the province must simply do more to address the plight of our homeless.

(24) We strongly advise against the reintroduction of rent-controls.

Ontario's previous experience with rent controls produced a number of negative results, including a dramatic reduction in private sector rental production; rental housing shortages; and a deteriorating (maintenance deficient) rental housing stock. Further, the current housing market in Ontario is quite robust and is experiencing an increase in private rental production; a dramatic increase in capital repairs and maintenance; the return of institutional investors to rental housing; significant job creation in the rental sector; increasing vacancy rates across the province at all rent levels; falling rents; and better quality housing for tenants. Thus, the reintroduction of rent controls is neither necessary nor prudent.

C. *Enhancing Civic Engagement*

Civic engagement refers to citizen participation in political and community decisions and is closely tied to the strength of Ontario's democratic institutions. It is a central component in our vision of a more prosperous and just Ontario. Civic engagement means that Ontarians are both able and inclined to participate in the decisions that affect their lives and their communities, and they are encouraged to express their views to their fellow citizens. Ultimately, it is our belief that increasing the scope for discourse, debate, and deliberation will generate decisions that better reflect the broad public interest and that have greater public legitimacy. This is especially important when the decisions being made are controversial and/or affect some citizen groups differently from others. If Ontario neglects to engage its citizens in the process of making difficult collective choices, it will fail to harness the potential economic, social and political contributions of its citizenry.

For civic engagement to occur, there must be opportunities for citizens to participate. However, the mere existence of opportunities does not guarantee a culture of civic engagement. Being part of a democratic society carries with it individual responsibilities, including the responsibility to participate and to become involved in political and community life. Civic involvement can range from voting to volunteering to becoming informed about and participating in political debates. Individual responsibility also extends to the way that individuals interact with each other and with their communities; they must demonstrate and foster the tolerance necessary to live in a culturally diverse society. Individuals must also be responsible in their use of public services to ensure that resources are not wasted and that the rights of all Ontarians are respected. For example, universal free access to health care carries with it a responsibility to use the health care system wisely and not wastefully.

Unfortunately, the province faces declining civic engagement. Ontarians are voting less and are more distrustful of government. They do, however, become involved in other forms of political expression, such as petition drives, call-in shows, internet polls and appearances at municipal councils. Volunteering and getting involved in decisions affecting their children's schools are other ways that Ontarians demonstrate civic engagement.

(25) We recommend that the province build on educational programs to instill in Ontario's youth an appreciation for, and commitment to, community and public service. These programs can be tied to the civic engagement programs currently in place in the school system, described below, and could include lecture series by community leaders,

placements or pro bono work with community organizations and a core curriculum based on the value of community and public service. These programs should be targeted to elementary and secondary school students and should be voluntary. These should be in addition to the current requirement that every student who begins secondary school must complete a minimum of 40 hours of community involvement activities in order to graduate.

The future also calls for political involvement at a broader level, through voting and other mechanisms. The principal form of civic engagement in Ontario is and should remain representative democracy. This involves voting for representatives and engaging in political debate. Other forms of democracy, such as referenda and deliberative democracy, have a limited role to play in supplementing representative democracy. However, representative democracy must be the focus of civic engagement in Ontario. That said, our system of representative democracy can and should be strengthened.

(26) We recommend that the province revitalize the committee system in the provincial legislature so as to enhance the spectrum of political views given voice in the development of legislation and regulations.

The committee system is essential to ensuring that a range of views are included in setting policy and developing legislative and regulatory requirements. Numerous options exist for reforming committees, including ensuring adequate committee funding and staffing; loosening party discipline; providing a stronger role in the scrutiny of budgets, draft regulations and legislation; and providing for committee oversight over regulations. The province must revisit the committee system to ensure that it permits fuller deliberation of the hard choices that are facing Ontario.

Civic engagement not only includes an improved committee system. It also requires that the public be educated and informed.

(27) We recommend that the province build on its successful program for civic education in primary and secondary schools and extend the program to immigrants.

(28) We recommend that the province strengthen its mechanisms for disseminating accessible and useful policy information to the public. This would include the dissemination of information via provincial freedom of information legislation, with appropriate attention given to legitimate privacy concerns. As addressed in the discussion on Smarter Government, below, we also recommend increasing the

accountability and information mechanisms surrounding the use of private actors in the provision of public services.

Government's use of information technology has been much debated recently. Information technology has potential benefits for government but also carries risks. Information technology is clearly beneficial in communicating information on government policies and programs to the public quickly and relatively cheaply. There is also the potential to enlist technology for voting and policy consultations. However, both e-voting and e-consultation are still in their formative stages and raise a variety of concerns about privacy, reliability, and fairness. Government should therefore exercise extreme judiciousness in its use of information technology.

(29) We recommend that the province continue to expand its use of information technology in providing access to information for citizens.

(30) We recommend that the province use caution with respect to internet voting as one method in a multi-channel approach to civic engagement. The government must ensure that security and reliability concerns and the varied distribution of internet access are addressed.

The above recommendations are aimed at strengthening representative democracy – the core institution in making collective decisions in Ontario. As discussed, we believe that extensions to representative democracy should play a limited supplementary role. These extensions include forms of direct democracy, such as referenda, and of deliberative democracy, such as citizens' juries.

(31) We recommend that direct democracy be used only where fundamental changes to the nature of Ontario's institutions, such as changes akin to constitutional decisions at the federal level, are being contemplated. Further, if referenda are to be used, we recommend that the province carefully structure the process so that it promotes informed, reflective and deliberative decision making by voters.

Direct democracy permits individual citizens to make choices about specific policy issues. However, direct democracy raises serious concerns about the ability of referenda to address complex policy issues, the role of money in the voting process, the loss of democratic debate and the hindering of rational policy making. Given the experience with direct democracy in other jurisdictions (e.g., California), we believe that its role should be very limited and carefully structured. It should not be used for general policy decisions manageable by representative democracy, such as the desirable level of taxes.

(32) We recommend that new forms of deliberative democracy, such as citizens' juries, play only a limited, well-defined and supplementary role in decision making. The province must be attentive to the issue of fair representation of all Ontarians in any such use of new forms of deliberative democracy.

Citizens' juries are potentially more promising than direct democracy but they also raise a variety of concerns about their interaction with the more traditional forms of representative democracy. Increasing public participation in democratic decision-making has its risks. It can be very costly – both for the government and for the public – and it can create unreasonable delays. It may also suffer from lack of interest or burn-out on the part of the public.

(33) We recommend that prior to change, the province consult Ontarians on a wide range of potential reforms to representative democracy, such as:

- *changing the electoral system to some form of mixed member proportional representation,*
- *revising municipal government (e.g., two-tiered government),*
- *reform of the legislature (e.g., the committee system),*
- *increasing the use of referenda or deliberative mechanisms, and*
- *campaign finance reform.*

It would be contrary to the spirit of this Report to recommend reforms affecting civic engagement without consulting Ontarians. Public consultation could take different forms, such as a special commission with broad representation, citizens' juries or referenda on electoral reform. The point is, however, that any reforms should be crafted as the result of a process of robust, informed and widespread civic engagement.

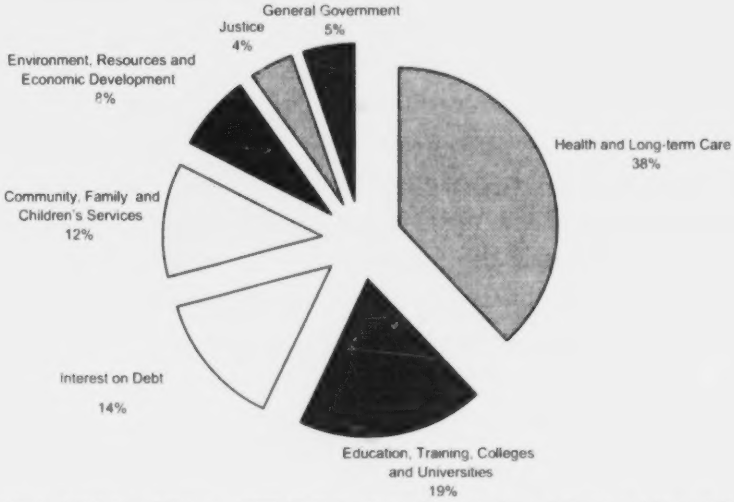
PART III MAKING HARD CHOICES

A. *The Need for Hard Choices*

We have put forth a number of recommendations that seek to enhance the knowledge and skills of Ontarians, the communities in which they live, and the ways in which they participate in the policy-making process. While adoption of the recommendations we have outlined will yield significant and compelling future benefits for the province and for the people of Ontario, full implementation cannot be accomplished without additional and non-trivial public expenditures. For example, one of the Panel's decisive recommendations in the area of education is the need for greater investment in early childhood learning. A broad, publicly-financed early childhood education program would entail a substantial investment of public funds. Some of the other recommendations, such as those related to revitalizing cities, will also require additional public spending. Most significantly, all of these investments will need to be made in a context of continuing fiscal pressure which jeopardizes the maintenance of existing programs, let alone the creation of new ones.

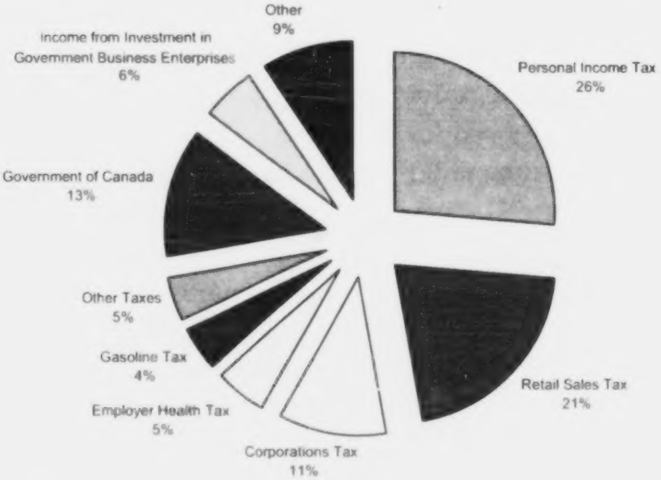
Against this fiscal backdrop, it behooves us to acknowledge that if the government were to commit to our priorities (or some variant on them), it will only be able to implement them if it is prepared to make a number of wrenching decisions. The reality is stark. Ontario cannot increase expenditures to foster a human-capital society and, at the same time, increase or even maintain its spending in all other areas (see Figure 2). If Ontario is to realize the benefits of our human capital vision, the province must take action in three areas. First, the province must examine the need for fiscal and economic reforms, and endeavour to reduce its reliance on some older forms of revenue-raising and industrial and other subsidies (see Figure 3). Second, we believe that both the provincial and municipal governments must provide goods and services in a "smarter" fashion. However, while fiscal reforms and working smarter are important, they are unlikely to be sufficient. Third, then, Ontario will have to face difficult trade-offs in a number of areas, including support for economically unsustainable rural and remote communities and spiralling health care costs which threaten to crowd out many other areas of needed government expenditure.

Figure 2: 2002-03 Expenditures



Source: Ontario, Ministry of Finance, *2002-2003 Province of Ontario Annual Report and Financial Statements*, (November 2003).

Figure 3: 2002-03 Revenues



Source: Ontario, Ministry of Finance, *2002-2003 Province of Ontario Annual Report and Financial Statements*, (November 2003).

B. *Fiscal, Economic and Environmental Policy*

(i) Taxation

Ontario's revenue comes from taxation, federal transfers, provincial enterprises and various other fees. The primary source of revenue for the provincial government is taxation. The province can and should improve its tax regime to support our proposed reform agenda. Tax reforms designed to promote work effort, savings and investment, entrepreneurship, technological progress, and philanthropy will increase Ontario's ability to create and adopt new knowledge, thus enhancing living standards. Yet, it must also be recognized that the revenue generated by taxes provides funding for a number of services critical to developing, retaining and attracting human capital, such as education and health care.

However, there is much evidence indicating that Ontario's tax rates, especially with respect to capital, are not competitive with those of competing jurisdictions (see Table 1). Relatively high tax rates on labour will impair the province's ability to attract and retain skilled human capital. Similarly, relatively high taxes on business will discourage the location of corporate and entrepreneurial investment in Ontario and encourage their migration to other jurisdictions. Further, taxes on business can be shifted to workers, in the form of lower wages, or to domestic consumers, in the form of higher prices. A further complication is that relatively high levels of taxation on investment, leading to lower levels of physical capital, decrease Ontario's capacity to harness the full economic potential of its human capital. The Institute for Competitiveness and Prosperity estimates that, since 1991, Ontario's private sector has, on average, under invested in machinery and equipment compared to private investors in the United States by 10 percent per year.

(34) We believe that Ontario should focus tax reform on enhancing the human-capital society and making the system more efficient. A number of principles should guide Ontario tax policy, such as:

- *tax rates should be competitive at both a national and an international level in order to attract and retain mobile factors of production, like capital and skilled labour;*
- *tax rates should be neutral across sectors of the economy, creating a broad tax base;*

- *the tax system should be transparent so that taxpayers can hold public officials accountable for their taxation decisions; and*
- *the tax system should be as minimally regressive as possible.*

We recommend that the province should explore a number of tax reforms over time, based on the above principles, paying particular attention to the following issues:

- *the competitiveness of Ontario's personal, corporate and capital tax rates;*
- *the personal income surtax;*
- *PST –GST harmonization;*
- *tax differentials between residential and non-residential property; and*
- *the use of benefit taxes and user fees, such as in the cases of transportation and infrastructure.*

Table 1: Marginal Effective Tax Rates for 2002

Jurisdiction	Capital	Labour
Ontario	47.1%	55.6%
California	26.3%	48.3%
Illinois	25.3%	56.5%
Michigan	22.2%	48.6%
Massachusetts	39.9%	47.5%

Source: Jack Mintz and William Robson, "Ontario's Future Prosperity: Issues, Changes and Recommendations," (Research Paper No. 7, Panel on the Role of Government, January 2003).

(ii) Fiscal Federalism

In addition to taxes, the provincial government receives transfers from the federal government. Most federal transfers originate from Canada Health and Social Transfer (CHST) payments. Since the early 1990s, Ontario's government has argued with justification that it is not receiving its fair share of transfers from the federal government in areas like immigrant integration and EI benefits.

(35) We recommend that Ontario seek a more transparent and non-discriminatory allocation of all federal transfers other than those received through the formal federal equalization program with a view to increasing Ontario's share of these transfers. This

may involve a shift to per capita federal funding for certain programs across all provinces (such as equal per capita funding of immigrant settlement programs).

In addition, we wish to emphasize one issue that the province will have to confront in the future: the increasing importance of cities in attracting immigrants and the unique urban infrastructure needs this creates in Ontario and which are not addressed in the current federal equalization program. How the growing and urgent needs of a number of vulnerable groups in Ontario's cities are to be reconciled with Canada's longstanding commitment to inter-regional equalization programs (which results in a significant transfer of net resources out of the province) is an issue that the province and the country will need to address in the not too distant future.

(iii) Economic Development Programs

The current period of economic development is often referred to as the new, or knowledge-based, economy, where wealth is increasingly generated through innovation. In this economy, the key to success lies in a jurisdiction's human capital resources. The belief that economic growth is now being principally driven by ideas, rather than physical factors, has led many analysts to investigate how knowledge, innovation and learning are best created and diffused. Emerging from this interest are theories that knowledge creation is an interactive process that is best facilitated through concentrated local (i.e., cities) or regional geographical spaces, commonly called "clusters" and "networks". Within these clusters or networks, learning and knowledge are fostered through the interactions between individuals and groups in what some have termed "regional innovation systems."

There is much discussion regarding how government can best foster growth in the new economy. Traditionally, governments have intervened frequently to support the development of the economy. There are a number of rationales used to justify economic development programs, including offsetting market power, externalities, information asymmetries, redistribution, and offsetting policies of other jurisdictions. Economic development programs can take a number of forms, including transfers directed to specific firms or industries or subsidies delivered through the tax system via targeted tax expenditures. In 2001, the province's expenditures on direct subsidies to businesses amounted to $637 million (see Figure 4); subsidies delivered through the tax system are also substantial and possibly of an even greater magnitude than direct subsidies.

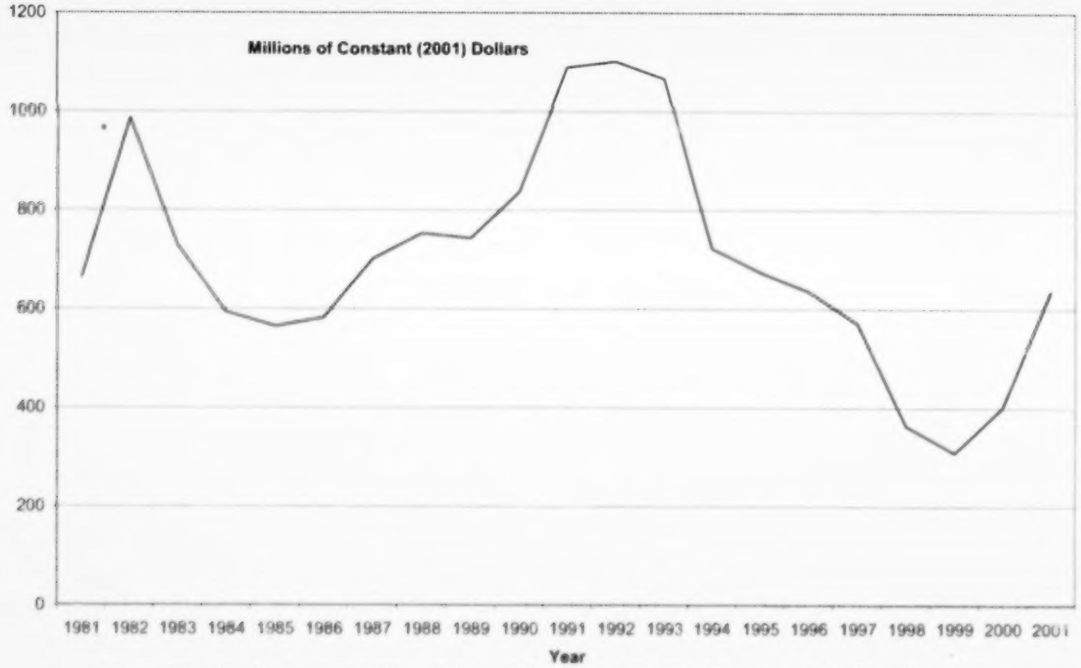
In many cases, it is difficult to determine if government intervention is justified. Furthermore, it is difficult to assess the impact of intervention. Therefore, while public investments in basic and applied research carried out by education institutions and public investments in infrastructure may be justified because of the public goods character of knowledge and infrastructure, it is unclear how most economic development policies directed at businesses, whether designed for the new economy or the old economy, deliver benefits that strengthen Ontario's economy. In fact, it may be that in most cases the costs of intervention outweigh the benefits. This is the clear and unassailable lesson of a multiplicity of failed government funding programs that, over the years, have been earmarked for specific industries.

(36) We recommend that the province make existing subsidy programs more transparent and, over time, phase-out most industrial subsidy programs.

(37) We recommend that the province continue its role in assisting regional stakeholders in the identification and dissemination of information regarding new economic opportunities through initiatives like the Ontario Competitive City Regions Partnership. However, such initiatives should not be focused on generating wish-lists of investments or expenditures by other levels of government, beyond basic infrastructure and public services, and basic and applied research.

(38) We recommend that the province focus its economic development policy on broad-based tax relief and tax reforms, public investment in basic infrastructure, public investment in basic and applied research (including the commercialization of research) as exemplified by the Ontario Research and Development Challenge Fund, and on the promotion of education and skills development through investment in life-long education and its requisite institutional anchors, such as schools, universities, colleges and cities.

Figure 4: Government of Ontario Subsidies to Business 1981-2001



Source: Finn Poschmann and William Robson, "Thoughts on the Fiscal Framework for Ontario's Industrial Development," (Research Paper No. 49, Panel on the Role of Government, January 2004).

(iv) Small, Rural and Remote Communities

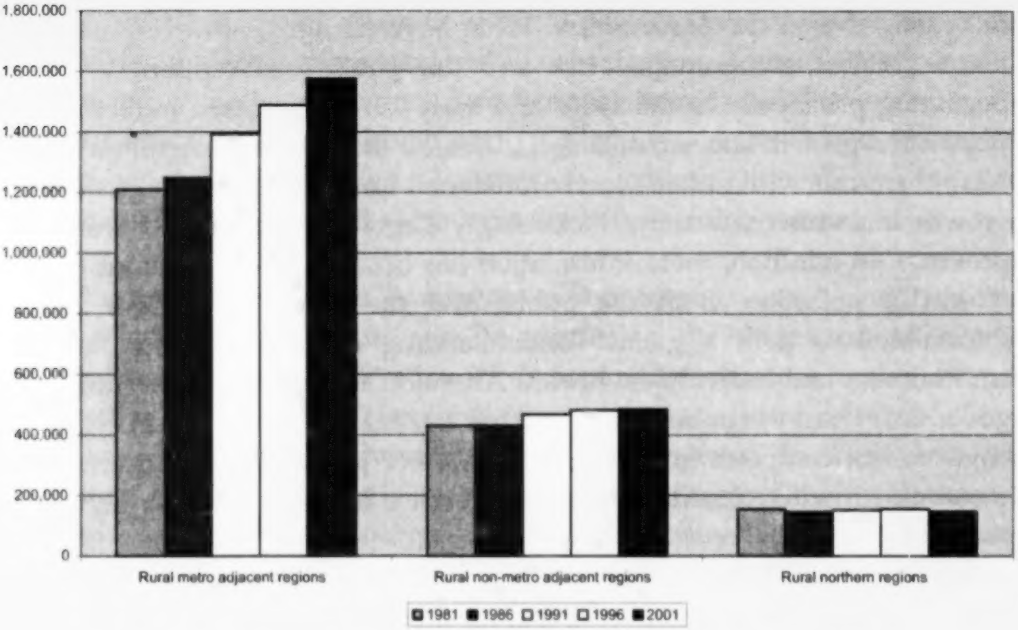
The sustainability of many small, rural and remote communities in Ontario is a matter of considerable concern. While recent population trends do not indicate alarming levels of population decline in such communities (see Figure 5), growth is largely limited to areas where more than 30 percent of residents commute to urban centres. In some communities, a lack of economic opportunities and recent demographic trends suggest that population decline will continue and will deepen in the future. The provincial government's primary goal in dealing with small, rural and remote communities should be to ensure that they have access to a reasonable level of public goods and services and programs that assist those living in at-risk areas with the challenges of community restructuring.

The provincial government needs a distinct and comprehensive strategy for both sustainable and at-risk small, rural and remote communities. Because of the importance of financial self-sufficiency, users of government services should pay the full costs for many of these services, with the exception of basic services, such as health and education. However, it is not feasible for small communities to be responsible for social services and social housing costs. These costs are more appropriately dealt with at the provincial level and the allocation of expenditure responsibilities should therefore be revisited. Provincial financing in other areas is also essential because of the limited fiscal capacity of small communities and their reluctance or inability to use capital markets to finance infrastructure. The costs of borrowing are also higher for small communities than they are for larger city regions. Smaller communities would, through lower capital costs, be the chief beneficiaries of an enhanced OMEIFA.

(39) We recommend that the province ensure that those choosing to live in at-risk communities have access to strong public institutions, such as regional health centres, schools and community colleges, that offer comparable core services to metropolitan centres. However, the province should phase out regional economic development programs, such as the provision of subsidies and tax incentives to businesses, which risk promoting permanent government- induced dependency.

(40) We recommend that the provincial government play an important role in providing young people and workers with regional labour market information, such as job-search and training program assistance, enabling them to make fully informed choices regarding future employment prospects. The province, in co-operation with the federal government, should consider providing appropriate transitional arrangements, such as those aimed at retraining for those willing to pursue opportunities beyond their home community.

Figure 5: Population of Ontario's Rural Regions, 1981-2001



Source: Agriculture and Agri-Food Canada, "Canadian Rural Population Trends," (Rural Research Note, June 2002).

(v) Environmental Policy

A healthy environment is central to the quality of life of Ontarians. This fact has not changed over the past century. What have changed, however, are both the nature of the environmental risk and the public's perception of that risk. Beginning principally in the 1960s and early 1970s, increased industrialization, population growth and urbanization increased the range of environmental risks. New chemicals with unknown environmental impact began being used and the growth in industrial activity increasingly degraded the air and water in the province. In addition, more information has become available about the actual effects of pollution. Both the public and the government have used this information to gain a greater understanding of how pollution affects the environment and individuals' health. Attention to environmental issues by the government and the public, however, has tended to rise and fall in cycles as the environment competes for attention with other public policy concerns such as economic growth. According to the Conference Board of Canada, Canada fares well internationally on a few environmental indicators such as fertilizer and pesticide use and threatened bird and fish species. Unfortunately, while Canada views itself as environmentally advanced, it in fact tends to fare poorly on most other environmental indicators in international rankings among developed countries.

Ontario will be faced with a range of environmental challenges over the next 10 to 15 years. For example, following the Walkerton tragedy, the Ontario government enacted more stringent requirements for the safety of drinking water. Ontario continues to work to implement the recommendations of the *Report of the Walkerton Inquiry* (under the Honourable Dennis O'Connor), including actions to protect sources of water in the province.

The government must also address environmental issues with respect to the quality of air, ranging from smog to climate change. The health benefits of taking action on these issues are potentially very large. However, the full cost of such regulation, such as implementing the Kyoto Accord on climate change, is not yet known but may be significant. Further, as the recent and highly publicized debate over the northern land fills and waste shipments to Michigan demonstrate, the province continues to struggle to find ways to deal with its large amounts of municipal and industrial waste. In addition, Ontarians must address other seemingly disparate environmental issues such as their heavy consumption of natural resources (such as water and energy) and the harm to ecosystems and endangered species.

The government will need to attend to these and other environmental problems over the coming years in order to protect Ontarians now and in the future. Many of these issues are related to urbanization. A complicating factor is the diffusion of pollutants across jurisdictional boundaries. For example, the smog that affects Ontario arises in part from sources in the United States. The province must take proactive measures to confront these issues now as environmental concerns are likely to intensify in the coming years.

Our recommendations governing environmental issues stem from the general themes of the Report and, in particular, the discussion of Smarter Government, below. We believe it is incumbent on the province to play a strong role in setting environmental standards where there is a risk of irreversible harm to human health or the environment. However, even in such cases, the government should be attentive to the form and content of the regulations. A broad form of cost-benefit analysis, taking into account input from interested parties, can aid in developing more effective environmental regulations.

(41) We recommend that the province adopt mandatory cost-benefit analysis as a feature of its promulgation of environmental regulations in order to facilitate better regulatory decisions by ensuring that the regulations are necessary and appropriate. In order to allay fears that a cost-benefit analysis may lead to a lack of regulation because of the inability to measure costs or benefits, the cost-benefit analysis should take into account both quantifiable and non-quantifiable costs and benefits (such as equity in the distribution of environmental risk). The development of such analyses should involve stakeholders and the results should be available to the public in order to enhance deliberation and restrain disproportionate influence by interest groups.

However, even with cost-benefit analysis, the government will lack much of the information needed to draft detailed regulations governing environmental controls, particularly on the costs of environmental regulations for all parties. Further, government standards can hinder innovation in pollution control. Market-based tools, such as tradable pollution permits and pollution taxes, can create incentives for individuals to reduce environmental harm, including the development and adoption of innovative technology.

(42) We recommend that the province rely to a greater extent on market-based instruments for regulating environmental issues. The instruments include environmental taxes on emissions and user fees (such as on water and sewer use), both of which force individuals to confront the costs of environmental harm and consumption.

Further, the province should continue to work towards use of marketable pollution permits, such as in the area of air pollution. However, the province must also take account of the accountability and democratic issues surrounding these instruments.

Because there is uncertainty about the actual cost and nature of the environmental harms that are the subject of market-based instruments, the government must ensure that the processes by which these instruments are developed are fair and that the views and interests of the parties affected by these instruments are taken into account. There are heavily contested value trade-offs underlying these instruments, such as the "optimal" level of air pollution, and these trade-offs need to be made in a transparent and accountable manner.

Both regulations and economic instruments, such as taxes and user fees, fail to fully leverage the ability of individuals to make decisions about the environment. For example, consumers can make decisions about whether they want to buy products produced by companies that do not have particular environmental safeguards in place or by companies that are known to cause harm to the environment in their manufacturing process. In addition, individuals can decide to sue firms that have caused them harm. Such actions by individuals can reveal public preferences that force companies to go beyond regulated actions (such as minimum emissions standards). Moreover, reflecting the theme of individual responsibility, individuals should be encouraged to make decisions about the type of environment they wish to foster. However, individuals need information if they are to be able to make informed and environmentally-conscious decisions.

(43) We recommend that the province build on the existing tools for providing information to the public on environmental issues. The province should expand on its program for obtaining and disseminating information on emissions from particular facilities (such as under the air emissions and reporting regulations) and on the information provisions of the Environmental Bill of Rights. However, the province should review the content of, and the manner in which, the information is disseminated, taking into account, for instance, that individuals may overreact to information on environmental issues in instances when the risk is quite small and that individuals may find it difficult to understand, access or use this information.

(vi) An Electricity Framework

(44) We recommend that the province articulate a clear and consistent policy for a reliable, competitively priced, fiscally prudent and environmentally sound electricity system.

For decades, Ontario's electricity policy has been characterized by confusion and inconsistency. The province has undertaken numerous reviews of the electricity sector over this time period, including, most recently, the MacDonald Taskforce, a provincial government White Paper, Ontario's Market Design Committee and the recent review completed by the Electricity Conservation and Supply Task Force. Still, a coherent and comprehensive policy addressing the province's electricity needs continues to elude the province.

There is little doubt that the past and present failure to articulate a clear and consistent strategy has compromised Ontario's economic prospects by discouraging investment. More importantly, the absence of a prudent and sustainable energy strategy will expose Ontario to massive and unnecessary fiscal obligations. In the face of this enormous financial burden, the province will be compromised in its ability to operate programs that are critical to expanding the province's investment in its people, such as health care and education, and will be hindered in its ability to maintain competitive tax rates.

The province's electricity system requires billions of dollars in electricity transmission and generation investment. Almost all of Ontario's existing generation capacity will be retired from service or will require substantial refurbishment over the next 30 years. In addition, transmission network reinforcement is necessary to ensure future supply reliability. The province lacks the fiscal capacity to undertake all of these investments itself without making unacceptable trade-offs with funding in other vital areas, such as healthcare and education.

The history of electricity in Ontario has been fraught with massive public write-downs of debt associated with government investment in electricity. At the time of industry restructuring in 1999, the province had an estimated $19.4 billion of stranded electricity sector debt left by the state-owned electricity monopoly Ontario Hydro. Recent estimates indicate that the stranded debt has grown to $20.2 billion. The massive cost overruns and delays in completing the Darlington nuclear station contributed greatly to this debt. The facility was completed almost a decade behind schedule at a final cost of approximately $14.4 billion, roughly 3.7 times more than the inflation-adjusted expected cost of construction.

The province's electricity sector has not shown signs of improved performance following the restructuring of Ontario Hydro into two new state-owned companies, Ontario Power Generation (OPG) and Hydro One, in 1999. This is best illustrated by OPG's efforts to restore the four Pickering "A" units to active service (as documented in the recent Pickering "A" Review Panel Report). In 1997, the estimated total cost of the project was $780 million with the first unit returning to service in June 2000. The first unit to be restarted actually did not return to commercial service until September 2003. The total cost of returning all four units to service is now estimated to be $3 to $4 billion dollars with the last unit scheduled to return to service between October, 2006 and August, 2008. Additionally, since beginning its operations, Hydro One has spent approximately $500 million acquiring local electricity distribution companies. Arguably, these funds would have been spent more prudently on improving the transmission grid or paying down electricity sector debt.

The experience of electricity sector investment in Ontario clearly underscores the risks to taxpayers and consumers of entrusting this task to the province and state-owned enterprises when appropriate oversight mechanisms are not in place. The billions of dollars lost through inappropriate investments could have been much more fruitfully redirected to more pressing public investments in social and physical infrastructure, as well as tax relief and tax reform. To put the magnitude of the impact of electricity sector spending in perspective, the new 600-bed hospital in Brampton will cost approximately $420 million to build. Our proposal for full-day senior and junior kindergarten for all four and five year olds, across the province, will require about $1 billion a year in new spending.

In May 2002, Ontario's retail and wholesale electricity markets were opened to competition. However, as a result of a "perfect storm" shaped by almost a decade of artificially suppressed prices subsidized by taxpayers, a lack of investment in new generation facilities, the Pickering restart delays, and a record hot summer that reduced hydro-electric generation capacity and increased demand, prices dramatically increased soon after market opening because provincial generation capacity was unable to satisfy demand. In response, the government lowered and froze the retail price of electricity for low-volume consumers and other designated consumers, such as municipalities, universities and colleges, public and private schools, hospitals and registered charities, at 4.3 cents per kilowatt hour (kWh) until at least 2006. The total cost of maintaining the 4.3 cents per kWh price freeze, as of November 1, 2003, was approximately $1.74 billion. Approximately $800-million of the freeze was financed by taxpayers because the province had to finance much of the difference between the frozen retail price and the wholesale price of electricity. The price freeze also removed incentives for low-volume consumers to conserve electricity, which had started to occur during the period of higher prices.

As a result of decisions by the new provincial government, Ontario consumers will shortly begin to pay higher government-administered electricity prices. Beginning April 1, 2004, users covered by the 4.3 cent price freeze will pay 4.7 cents per kWh for the first 750 kWh of electricity consumed per month. For use above that level, consumers will pay 5.5 cents per kWh. The interim rate regime will prevail until the Ontario Energy Board develops a new electricity pricing plan by May 1, 2005. By bringing retail prices closer to market levels, the new pricing represents an improvement in promoting the efficient use of electricity, but it is not an answer to the province's long-term supply problems.

(45) We recommend that the government make the option of market-based pricing, with peak and off-peak rates, available to all electricity consumers to promote conservation and consumption shifting, being sensitive to the impact of such pricing on low-income users. Market-based pricing (as in natural gas, oil and gasoline) should also be pursued because taxpayers should not subsidize electricity consumption and production. We believe that such pricing will also make it more economically feasible to invest in renewable generation facilities, such as wind, biomass, and solar power, in the province.

Ontario needs a retail pricing structure that creates the appropriate demand-side incentives for consumers to reduce consumption, shift the time of consumption, and use products that conserve electricity, and creates supply-side incentives for businesses to develop energy-efficient products (including improved generation technology). This will reduce the need for additional generation and transmission capacity. The proper pricing environment entails charging customers prices based on supply and demand conditions at the time of consumption using time-of-use pricing. In such a system consumers must possess interval meters that record the amount and time of electricity use.

(46) We recommend that the province adopt measures to encourage greater private sector investment in the electricity sector in order to harness effective capital market

scrutiny of generation investment. While we have differing views regarding the desirability of privatizing Ontario Power Generation, we believe that the private sector has an important role to play in the promotion of a competitively priced market for electricity supply and in diversifying risk rather than relying on decisions by a single dominant supplier. Creating such an environment will necessitate a reduction of OPG's dominant position, irrespective of whether the company is publicly or privately owned. The province must also work to streamline and harmonize regulations between other governments where significant regulatory overlap exists, such as environmental assessments, to facilitate the construction of new generation facilities.

The current environment requires the provincial government to modify its role in supplying Ontario's energy needs. This is critical given the government's commitment to phasing out the province's coal generation facilities, which represent approximately 25 percent of the province's generation capacity, by 2007. Estimates indicate that replacing Ontario's coal generation facilities will cost between $10 billion and $15 billion.

(47) We recommend that the province undertake a comprehensive review of the costs, including the environmental and health costs, of different fuel sources so that these sources may be priced to reflect these costs. We further recommend that the results of the review be made widely available to the citizens of Ontario. With such information consumers should have the option of paying higher prices for renewable generation, if they wish to do so. We believe that such a review, in conjunction with market-based pricing and increased private sector participation, will serve as a strong impetus for promoting a more diverse supply mix and expanded use of renewable generation in Ontario.

The province should not become inappropriately dependent on any particular technology or fuel source, especially when the reliability of the technology is unproven and when the byproducts of the generation process may have serious, long-term, negative consequences for health, safety and the environment. Ontario currently relies heavily on nuclear and coal generation to supply its energy demands. The province's nuclear plants have a long history of extreme cost overruns and poor performance, as exemplified by the construction of the Darlington facilities and the Pickering restart. Coal plants produce emissions that damage the environment and health. Ontario needs to diversify its supply mix and increase its use of renewable generation, such as biomass, wind, and solar power. However, in the present state of technology, the cost of renewable generation, which has environmental and health benefits, is typically more expensive than that of traditional fuel sources, such as coal.

(48) We recommend that the province work with the public and stakeholders to develop a plan for transmission grid maintenance and expansion, including the exploration of increased linkages with Quebec, Manitoba and neighbouring U.S. states. The province must also work to streamline and harmonize regulations between other governments where significant regulatory overlap exists, such as environmental assessments, to facilitate the construction of new transmission infrastructure.

The province must develop a strategy for the expansion and maintenance of its transmission grid. Some regions of Ontario, including the GTA, require transmission network reinforcement in the near future to ensure supply reliability. Grid expansion is also necessary to increase the province's electricity import capacity to expand and diversify sources of supply, supporting a competitively priced electricity market. Enhanced import capacity will increase system reliability because the province will have access to additional generation resources in cases of unexpected domestic outages and extreme weather.

C. Smarter Government

When government decision-making is refined, fiscal space often becomes available for tax relief and human-capital development programs. Better decision-making ensures that citizens receive high-quality public goods and services at the lowest cost. In addition, it reduces the cost burden on private actors to comply with regulatory requirements where possible. The need for "smarter" government—that is, government that is responsive to these concerns—applies to goods and services procurement, regulations, and service delivery. Here, we address four key elements of smarter government: government regulation, public service accountability mechanisms, the use of private parties to deliver public services, and the capacity of the public service.

(i) Regulation

During the postwar period, governments have regulated in an increasingly wide range of areas including occupational health and safety, the environment and consumer products. In some instances, regulations are appropriate and necessary to protect the public. But, even where necessary, regulations must be effective, transparent, and take into account the impact on the general public and business. As well, regulations must permit the development of new technologies. In certain circumstances, regulations can operate to improve societal welfare by, for example, addressing consumer risk from unsafe products. However, regulations also have the capacity to diminish economic prosperity by being excessively onerous. Regulations can impose high compliance costs, which act as a barrier to entry and discourage investment. They can also provide ongoing benefits to private parties at the expense of the public interest.

The costs and benefits, both public and private, require consideration when developing regulations. The previous provincial government created the Red Tape Review Commission (now the Red Tape Secretariat) to enhance regulatory design and eliminate outdated regulations. However, a more comprehensive framework is now required to ensure the appropriate use, design and implementation of regulations in Ontario.

(49) We recommend that the province adopt a mandatory, broad-based form of cost-benefit analysis when contemplating future regulation in order to facilitate better decision making. To increase transparency and fairness, such analysis should involve stakeholders. As advocated in Recommendation 41, the results should be made available to the public to enhance civic engagement in the development of public policy. The cost-benefit analysis should also encompass both quantifiable and non-quantifiable factors, such as equity in the distribution of risk.

(50) We recommend that the province, to the extent feasible, identify and employ incentive-based forms of regulation, such as the user fees discussed for water and sewer use and tradable pollution permits. In addition, we recommend that regulated parties pay their fair share of the province's costs of regulation (such as the costs of the approval process and enforcement).

These sorts of regulations can encourage parties to find the least costly means of meeting policy objectives and to innovate in meeting these objectives.

(51) We recommend that the province also work to streamline and harmonize regulations between other levels of government where significant regulatory overlap exists, such as environment assessments.

(ii) Public Sector Accountability

A key component of smarter government is ensuring that public services are delivered in the most efficient manner, in terms of cost and quality, to the citizens of the province. An important aspect of smarter government in general, and of an efficient service delivery system in particular, is the creation of a strong accountability framework. All providers of public services, whether within government itself or within a related agency or sector, such as hospitals, universities and social services, should be accountable for the delivery of their services. Currently, Ontario's ministries and agencies are required to undertake annual business planning and performance measurement. However, there is some skepticism about the practical utility of business planning and performance measurement. Performance measures tend to be input-focused and change frequently, thereby hindering comparisons over time, and are of limited relevance to citizens. Further, the development of performance measures and targets are largely the responsibility of individual ministries and agencies, making performance comparisons among ministries and agencies difficult.

(52) We recommend that the government continue to pursue performance measures for ministries, agencies, and the broader public sector. In order to be effective, the performance measures should be consistent across the public sector and thus amenable to meaningful comparisons between public sector entities over time. Further, clear outcome measures that are relevant to consumers of public services should be developed. Performance results should be supplemented with further evaluation when there is uncertainty regarding the effects of a government program, such as whether it led to the results observed, and when the program fails to achieve the desired results.

(53) We recommend the continued use of information technology for the dissemination of information on public programs to enhance transparency and accountability.

Improving the accountability and performance of government activities requires an effective means of evaluating government performance. In some cases, current measures of performance rely on narrow forms of cost-benefit analysis, to the exclusion of other evaluative instruments, and may not be effective. Such narrow cost-benefit analysis is not always appropriate for the evaluation of policy and service delivery. In many cases, results cannot be expressed quantitatively and evaluation needs to take into account qualitative views of interested parties.

(54) We recommend that Ontario develop a more deliberative approach to evaluating government performance, using cost-benefit analysis, with broader deliberation involving the public and stakeholders.

(iii) Private Delivery of Public Services

A further element of "smarter government" involves the use of the private sector to deliver public services. The province faces many challenges, including fiscal and infrastructure challenges, and should be prepared to consider the full range of options available for service delivery, including public-private partnerships and privatization. The province lacks the fiscal capacity to adequately fund public delivery of all public services. Consequently, some form (or forms) of private sector involvement is a necessity. The private arena includes the for-profit and the non-profit sectors. We are aware of successes and failures of alternative service delivery arrangements in Ontario, Canada and other jurisdictions, and think they should be examined with a view to a made-in-Ontario approach. The use of private actors to deliver public services requires strong public accountability mechanisms to ensure that the public interest is being served.

Two increasingly popular service delivery arrangements that involve the private sector are contracting-out and public-private partnerships (P3s). Contracting out occurs when the government purchases services under contract from a private actor but remains accountable for the delivery of the services. P3s occur when the government enters into a formal partnership with private parties to provide services and each party contributes resources and shares the risks and rewards. Private sector participation (both by for-profit and non-profit participants) in the delivery of public services has the potential to enhance the quality of public services and lower the costs of delivering these services.

In addition to contracting out and P3s, the province could move out of the hybrid arena of private-public delivery relationships and could privatize public services. In fact, very limited privatization has occurred within Ontario. Overall, recent policy decisions, such as cancelling the privatization of Hydro One, have reduced Ontario's credibility with respect to privatization initiatives. In the current setting, the province may have difficulty in attracting interest in future private sector service delivery initiatives. Further, there is significant public skepticism regarding the benefits of privatization. If the province does privatize the delivery of a public service, it will have to demonstrate clearly to its citizens that private sector delivery yields net benefits over public sector delivery.

A related issue is deregulation. Deregulation typically involves the transition of an industry from a vertically integrated government or private monopoly to that of a competitive market (such as electricity). The transition from regulation to competition is a difficult and protracted process. A successful transition requires resolution of a number of complex issues, such as determining the components of a market that can be made competitive, monitoring market power, and determining the pace and extent of deregulation. The failure to address these issues adequately can lead to a less efficient outcome than the formerly regulated market. In some cases, the transitional problems are so acute that, even if technical issues are addressed properly, political pressures may result in government re-regulating the sector.

(55) We recommend that Ontario pursue further use of the private sector (both for-profit and not-for-profit sectors) in the delivery of public services through contracting out, P3s, privatization and deregulation. So long as effective public accountability mechanisms are in place (which ensure fidelity to public concerns), private for-profit and not-for-profit providers should be able to compete for the delivery of many public goods and services.

Public accountability mechanisms need to be improved. The numerous accountability problems encountered, including conflicts among ministries, labour unions and the provincial Auditor, combined with Ontario's relative lack of experience with public-private arrangements, indicate that better public information, project oversight, transparency and accountability mechanisms are urgently needed.

(56) We recommend that the province adopt an independent review process to monitor its service delivery arrangements with the private sector in order to ensure that these arrangements provide demonstrable benefits over traditional public sector delivery. To increase transparency, the results of reviews should be made available to the public.

Publicizing the reviews will enhance civic engagement in the development of public policy. It will also inhibit the use of opportunistic arrangements, such as projects initiated to engage in off-book financing or to provide unwarranted subsidies to a domestic firm or industry. Finally, a public review process would act as a safeguard to prevent the rejection of private service delivery arrangements on inappropriate grounds, such as rejection of a private delivery provider based on unreflective ideological grounds.

(iv) The Public Service

Each administration will have differing political views on how broadly or narrowly the provincial government should be involved in the social and economic life of the province. Regardless of these differences, the government of the day will continue to rely on its own employees, the Ontario Public Service, for advice, to develop and implement its policies and to ensure the efficient operation of government. However, there is much concern over a looming retirement bulge for senior and more experienced civil servants. This problem has been exacerbated by periodic hiring freezes and layoffs that have severely limited the number of younger employees available to take the place of those who are leaving. Moreover, since the government has not been an active recruiter in recent years, most university graduates no longer consider the possibility of a career in the public service. It is encouraging to note that on the few occasions when the government has attempted to recruit younger staff, as it did, for example, for the Internship Program, the response was overwhelming.

In order to ensure that the province will have the best workforce available to meet the challenges ahead, the government will have to take steps to reinforce the value of public service and will have to update its human resource policies and practices. Changing demographics, a changing family structure and changes in technology will require greater emphasis on human resources in the future. Many aspects of human resource management will no doubt need to be reviewed, including: development and training for senior and mid-level managers to lead change; the relationship between the government as employer and its bargaining units; the impact of compensation philosophies on recruitment and retention; proactive campus recruitment strategies designed to attract some of the best and brightest young Ontarians into the Ontario public service; and the capacity of the government's own human resources practitioners.

By its very nature, our electoral system, with its 4 or 5 year mandates, can result in a disproportionate focus by governments on the immediate and near-term. However, many public policy matters extend beyond the life of a single electoral cycle and the full implications of decisions taken (or not taken) may not be felt for years or decades. The public service, which transcends both the politics and duration of the electoral cycle, has a critical responsibility to be the steward of the longer term. The public service is also responsible for the protection of the public good and should be supported in this role. Appropriate support requires the allocation of resources dedicated to long-term planning, the implementation of a system to ensure the transfer of knowledge, greater emphasis on civil service innovation, the development of interprovincial, federal-provincial, international and intergovernmental contacts, and greater tolerance of risk taking and critical thinking.

The OPS must be prepared for, and committed to respond to, the changes that will take place in Ontario over the next 10 to 15 years. To respond to change in all its forms – i.e., societal, demographic, economic, global - civil servants at all levels must share a common set of values.

(57) We recommend that the province take the following actions to ensure that Ontario is able to attract, retain and motivate a high quality and non-partisan public service:

- *Adopt measures to enhance public regard for, and appreciation of, Ontario's public servants, such as initiatives designed to provide the public, media and politicians with a greater understanding and appreciation of the challenges public servants face and the contributions they provide.*
- *Develop improved compensation programs for public servants, including the continued use and development of performance-based pay systems. Improved forms of compensation will assist in the recruitment and retention of a high-caliber public service.*
- *Form effective partnerships with Ontario's educational institutions, including student employment programs and on-campus recruitment, as a means of attracting new, young recruits into the public service.*
- *Encourage employees to further their personal development through support for career-long learning, including support for individual learning; exchanges with private and broader public sector organizations; interjurisdictional contacts; and research sabbaticals/publishing. All of these initiatives will also contribute to enhanced policy development and program administration.*
- *Provide more resources for flexible forms of organizational structures and compensation plans in order to facilitate horizontal policy development and program delivery.*
- *Consolidate Ontario public service human resource functions into one entity to improve capacity, and invest in this entity responsibility for recruitment, retention, succession planning, knowledge transfer and career development.*
- *Support the public service in its critical roles of steward of the longer term and protector of the public good. Support can be in the form of resources dedicated to long-term planning, assuring appropriate knowledge transfer, greater emphasis on civil service innovation, and greater tolerance of risk taking and critical thinking.*

- *Revise and modernize the Public Service Act, including making provisions for matters relating to political neutrality, public comment and whistle blowing.*
- *Develop a definition of the future state of the Ontario Public Service in terms of its attributes, its profile and its role in supporting the government of the day and update the OPS common set of values in this context.*

(58) We recommend that the provincial government constitute a Strategic Planning Unit in the Cabinet Office. This entity would create policy making capacity at the centre of government, removed from the day to day operations of specific departments, and have a forward looking policy focus, mitigating the silo effects in government ministries and agencies and providing better integration of long-term policy initiatives. The Strategic Planning Unit would undertake a number of functions, such as reviewing government operations regarding the enhanced use of the private sector (both for profit and not for profit sectors) and adopting a framework for identifying and dealing with community restructuring for at-risk small, rural and remote communities.

D. Health Care

Over the past year or so, there have been a number of major reports on the health care system in Canada: the reports of the Romanow Commission on the Future of Health Care in Canada (the "Romanow Report"), a Senate Standing Committee Report on the State of the Health Care System in Canada (the "Kirby Report"), the Alberta Premier's Advisory Council on Health and the Saskatchewan Commission on Medicare. This Report cannot, and should not, redo the work of these committees. Rather, it draws upon this body of work to connect the health care system to our vision of a human capital society and to identify the directions the province should take in light of the coming challenges.

An effective, efficient and accountable health care system is an indispensable component of our vision for the province. Increasingly in the future, the health care system will pose a challenge for the province and for individual Ontarians. In a system stretched to capacity, each and every Ontarian, as well as the province itself, will bear responsibility for ensuring that the health care system is managed responsibly so that it can continue to meet its obligations to all Ontarians.

(i) Health Care Spending, Drivers and Challenges

Difficulties with the health care system seem constantly to confront us. There are arguments between the federal and provincial governments over levels of funding, articles on the pernicious effects of waiting lists, questions about the current quality of care and fears of a slide to a U.S. style of health care that fails to offer universal coverage. A major concern is the continued escalation of provincial spending on health care. Health care has risen from approximately 29 percent of total provincial spending in Ontario in 1977 to approximately 38 percent by 2003. Increased spending on health threatens to delay or reduce expenditures on many other government programs including the priority that this report argues should be placed on education and cities. For example, over the same period that health expenditures rose to nearly 40 percent of provincial program spending, the share of the provincial budget devoted to education fell from over 25 percent of the budget to under 20 percent.

There is further cause for concern going forward. Numerous studies suggest that the increase in health care spending will continue in the coming years. For example, the Conference Board of Canada estimates that provincial/territorial health care spending will increase from 32 percent of revenue in 2001 to 44 percent by 2020. Ontario will have to meet these demands in a renewed era of fiscal constraints.

The key challenges related to health care spending increases are:

- *Demographics*: The two aspects of demographics that will push up health care costs are population growth and aging. In a system of universal health insurance, the costs of providing the same level of care to all Ontarians will rise as the population increases, all other things being equal. The Conference Board estimates that overall population growth increases the annual nominal health care spending growth rate by 0.9 percent per annum. Similarly, as the population ages and makes greater demands on the health care system, health care costs will rise. There is a very real fear that the increasing proportion of elderly will lead to spiralling health care costs. The Conference Board of Canada, for example, expects that in Canada, aging alone will drive up health care costs by 0.8 percent per year. However, there are differences in estimates of the impact of aging on spending. In addition, the system has some time to adjust and we can look to the experience of other countries already facing aging populations. Nevertheless, the province must ensure that the health care system is prepared to address the impact of aging on spending and allocation of resources.
- *Customer and Provider Expectations*: Despite ever-increasing health care spending, Ontarians continue to expect better, faster, more convenient service. These expectations are fueled by the easier access individuals now

have to information about new services. In addition, health care providers expect to be able to access the best, most effective services for their patients. These rising expectations are an important factor driving up health care spending.

- *Pharmaceuticals*: Expenditures on pharmaceuticals have risen dramatically over the 1980s and 1990s, driven in part by increased drug use but also by substitution towards newer, more costly drug therapies. The Canadian Institute for Health Information found that, nation-wide, spending on drugs increased from 9.5 percent of health care spending in 1985 to 15.4 percent by 2000. Drugs constituted the second highest percentage of health expenditures, behind hospitals. This spending on drugs has been increasingly financed by the public sector.
- *New technologies*: Canada also faces a deficit in many areas of new technologies which will impact future health care spending. For example, new diagnostic tools lead to greater demand for some services. However, while technology has been changing rapidly in recent years, there is insufficient information on the exact cost impact of incorporating new technologies.
- *Home care*: As the population ages, there will be a continued shift from hospital care to homecare and long term care for the elderly. The Conference Board predicts this shift will further reduce the share of health expenditures devoted to hospitals. However, it estimates the share for home care services will rise from 4.2 percent to 7.6 percent between 2001 and 2020.
- *Waiting lists*: Waiting lists are both a symptom of difficulties in the health care system as well as a source of inefficiencies and concerns. Increased waiting times have a variety of effects on patients, including stress, pain and, in some cases, reduced health outcomes. In addition, individuals on waiting lists often cannot function to the fullest extent of their capabilities because of their health limitations, imposing an additional economic cost on the individual and on the province. The Fraser Institute's 2003 national hospital waiting list survey indicates that although Ontario has some of the shortest wait times in the country, waiting times for medical treatment continue to grow, and provinces that spend more per capita on health care do not have shorter waiting lists. Although in a publicly funded, universally accessible system some waiting times are inevitable and acceptable, there are problems with the way in which wait lists are managed. There is little consistent way of dealing with wait lists within the province or country. Most lists are managed by individual physicians and there is little coordination among them. The result is that a patient

may be on a specialist's wait list for an appointment while there are other specialists with shorter lists. Further, there is no comprehensive auditing of waiting lists to determine if individuals are appropriately listed, if their circumstances have changed, or whether they are on more than one list for the same service.

- *Human Resources*: The health care sector is facing significant shortages of skilled workers and prospects for shortages are likely to worsen in the near future. This shortage is especially serious in the case of nurses but also relates to physicians and other health care professionals. Moreover, the lack of health professionals is considerably worse in some parts of the province than others. This shortage is due to a range of factors, including the aging of the current stock of health care professionals, the increasing number of female physicians, some of whom tend to work fewer hours than males, a reduction in training positions, barriers to accreditation of professionals trained in other countries, deteriorating working conditions and increased international competition for health care professionals (in part leading to a "brain drain" to the U.S.). These shortages will play a significant role in determining the rate of health care cost inflation into the future.
- *Governance*: As will be discussed in more depth below, the system faces a governance challenge because health care governance and accountability are spread across so many parties – the federal government, the provincial government, physicians, hospitals, unions and others. Further, even with clear lines of responsibility it is difficult to monitor and control use of the system because of the lack of adequate information.
- *Patient and Supplier Incentives*: Much attention has been focused on the concern that in the current system the major parties lack the incentives to limit or control demand for health services. Because most services are covered by OHIP or private insurance, patients face few incentives related to the cost of health services. Patients are generally unaware of the costs and potential benefits of treatments, and trust their physicians to prescribe appropriate courses of treatment without having to consider the financial implications. In the absence of other constraints (such as professionalism norms, physician shortages), fee-for-service systems may encourage physicians to over-service patients. Although physician payment accounts for only about 15 percent of total health care costs, physicians are the gatekeepers to the system and they exercise considerable control over the total resources utilized in health care delivery. Further, hospitals are funded on a global budget that does not fully take account of the mix of

patients in a given year. Such global budgeting reduces the connection between hospitals' revenues and expenditures.

- *Patient Safety*: There is some evidence of a safety concern to patients in hospitals due to preventable illnesses contracted and injuries incurred while in hospital. According to the Conference Board of Canada, international evidence suggests that medical errors or adverse events occur in 10 to 16 percent of patient admissions.
- *Environmental Degradation*: Declining levels of environmental quality, such as increased smog, play a role in increasing the demand for health care services. Health Canada estimates that the physical environment constitutes 10 percent of the causal impact on individuals' health.

(ii) The Governance Challenge

While changes to the health care system are clearly needed, there is little consensus among the health care experts about the nature or character of this change. In this Report, we focus on the governance arrangements in the health care system as a key factor in preserving and improving the system. We believe that the province needs to improve the transparency and accountability of the system.

Before discussing the governance challenge, it is important to note that the high costs and other challenges described above arise in a range of different types of health care systems. In terms of overall health expenditures as a percentage of GDP and per capita, Canada ranks among the highest spenders of OECD countries. For example, in 2001, Canada's spending on health care was the fourth highest of the OECD countries as a percentage of GDP (9.6 percent), behind the U.S. (with the highest spending at 13.9 percent of GDP), Switzerland (11.1 percent) and Germany (10.7 percent). In terms of the share of total health expenditures that are publicly financed, Canada, at 70 percent, was close to the OECD and G7 averages, and far above U.S expenditures of 45 percent. The fact that other countries have high and increasing health expenditures indicates that there is no "silver bullet" for fixing the health care system. It is unlikely that better organization or management will on its own solve the health care issue. However, the province needs improved arrangements for defining public goals, identifying who must achieve those goals and holding those individuals accountable for their actions – not unlike our recommendations for the education system.

When we speak of governance in the context of the health care system, we are describing the arrangements required to ensure that the performance of organizations in this sector is aligned with democratically determined public objectives for the sector. According to polling data, the public objectives for the health care sector include equitable and timely access to comprehensive health care. The central element of governance is accountability – that is, the systems for rewarding or sanctioning those who make decisions. Governance therefore requires identifying who is responsible for which aspect of performance, information on that performance and the availability of rewards and sanctions.

We believe that governments will continue to be primarily accountable for the health care system and that there is therefore a need to improve accountability through the existing democratic institutions. The difficulty in the current system is that the responsibilities are diffuse and unclear. Both the federal and the provincial governments play a role in health care and each is quick to point to the other as the source of problems in the health care system, particularly concerning funding. Moreover, accountability is further scattered across the many different agencies, unions, associations, hospitals, provider groups and individuals who make up the health care system. The variety of actors, the complex legislative and commercial scheme of responsibility and the squabbling among the parties make it very difficult to determine who is actually accountable for which aspects of the health care system.

A further aspect of the governance challenge is the many agency relationships that exist in the health care sector. Patients typically have insufficient information about health care and therefore entrust physicians and other caregivers with significant responsibility to make decisions on their behalf. This scope for decisions is valuable in that it allows physicians to use their professional discretion to make decisions on the circumstances of each patient, but it also leaves open the possibility of some physicians acting in their own interests. Governments attempting to oversee the actions of physicians in order to control costs and/or to ensure that the trust of patients is not violated lack the necessary information and will typically rely on self-regulatory bodies to provide oversight. Similarly, governments have difficulty monitoring the actions of hospitals and other institutional providers. This web of agency relationships makes it difficult to monitor, let alone control, what happens within the health care system even where the lines of responsibility are clear.

The result has been a move by governments towards a "contract" model of accountability. The government contracts for services from various providers.

However, because the province has insufficient information and expertise (such as on health outcomes) to monitor these "contracts", the accountability (or agency) problems persist. Further, the stability of the oversight is significantly hampered by turnover of senior government officials (both ministers and top civil servants). According to the Canadian Institute for Health Information, there were 85 health ministers and 79 deputy ministers of health in Canadian federal, provincial and territorial governments between 1990 and 2001, with the median term for a provincial minister being 25.7 months. To address the difficulty in governance across levels of government, the Romanow Commission recommended, and the First Ministers have established, a national health council to act as an independent body to review the funding and performance of the health care system. Ontario is taking some steps in this direction with a new Health Quality Council which will monitor access to publicly-funded health care (including wait times), examine the state of Ontarians' health and report to the public on health measures.

The accountability framework for Ontario's health care system must take these agency relationships and informational difficulties into account. It must also recognize that different types of providers, such as hospitals, physicians and home care service providers, raise different accountability concerns.

Information is central to improved accountability. The health care industry is, by its very nature, information intensive. The most important factor in any diagnosis or treatment is information. Information is also important for evidence-based decision-making aimed at improving health outcomes. For the purposes of governance, however, vital information is currently lacking. The province requires better information than it now possesses if it is to create greater accountability through the setting of performance targets and the monitoring of the attainment of those targets.

Improvements in the definition and measurement of health inputs and outcomes would yield valuable information that, in turn, could be used to improve health outcomes and the efficiency of the system. Both the Romanow and Kirby reports stress the importance of improved information systems. For example, Romanow noted:

> Information is a key ingredient. We live in an age of laser surgery and are unlocking the mystery of the human gene, yet our approach to health information is mired in the past. We gather information on some health issues, but not on others. And much of the information we gather

> cannot be properly analyzed or shared. Indeed, we know far more about resources and the dollars being spent than we do about the return on those investments. Better information will facilitate evidence-based decision making. How can we hold health care managers accountable if what they are managing cannot be measured? If we are to build a better health system, we need a better information sharing system so that all governments and all providers can be held accountable to Canadians. (Romanow (2002))

Though both Kirby and Romanow were addressing the federal health infrastructure and information sharing, their observations are equally applicable to the provincial level. The federal and provincial governments should work together on joint initiatives to improve the collection and dissemination of health information across the province and country.

Improved information will facilitate the monitoring and evaluation of the health care system's performance. The province should focus on the definition and timely collection of data on quality of care, health indicators (i.e., patient outcomes), accessibility of care and overall system performance. Care must be taken to develop meaningful measures that meet the needs of the system and not simply to utilize those data that are most accessible. Accountability and responsiveness to the public could be improved by making these data available to the public by way of annual reports or "report cards" on the status of health care in the province. These report cards would include information on health outcomes broken down on the basis of regional and local differences. The reports would facilitate dialogue with the public and enable Ontarians to track the performance of the health care system over time.

In addition, information technology can contribute to the improvement of health outcomes. As noted above, waiting lists are posing a challenge to the health care system. In order to reduce the added costs and adverse health consequences that can be caused when individuals have to wait for necessary health care, placement on waiting lists should be assigned on the basis of the nature and urgency of each patient's needs. In order to assess each patient's need, and to determine relative placement on waiting lists, the province requires information technology to create and manage a centralized booking system for services. Hospitals would also benefit from information technology, including internet access. Financing of information technology in Canada is below that in the U.S. and the U.K. For example, in discussing levels of ICT financing in the health care sector in Canada, the Conference Board reports that the level of ICT funding in Canada is less than in other industrialized countries (as a percentage of budget financing is 2 percent in the UK and 2 to 6 percent in the U.S. but is 0.5 to 1.8 percent in Canada) and in other industries.

(iii) Directions for Reform

We believe that the province must take a number of steps to respond to these challenges and, in particular, to ensure the long-term sustainability of the current system.

(59) We recommend that the province seek enhanced federal funding of health care for Ontario and all other provinces.

Health care constitutes an increasing share of provincial budgets and is important to all Canadians. However, there is a structural imbalance between the revenues and responsibilities of the federal and provincial governments. The federal government has revenues to allow continued investment in health care and the province should continue to pursue efforts to increase federal funding to the provinces.

(60) We recommend that the province ensure that it has a framework in place to undertake the necessary policy and monitoring functions. These functions include:

- *Auditing the quality of health care services in the province, including the development of new systems and measures to allow more sophisticated assessment of the system's ability to provide high quality care, timely access, equitable, reliable and efficient service and to respond to unpredictable events;*
- *Providing recommendations on funding of and clinical practice guidelines for new technology (including treatments, equipment and drugs) based on the work of national bodies on the clinical and cost effectiveness of such technology;*
- *Developing frameworks for the performance agreements, discussed below; and*
- *Facilitating negotiations between the Ministry and the various provider groups.*

We are not recommending the creation of an additional intermediary body in the health care sector at this time given the number of new bodies that have recently been constituted. Rather, the mandate of, for example, the Ontario Health Quality Council could be expanded provided that conflicts between standard setting and auditing functions can be addressed. The province should assess the operation of the existing organizations in five years time and if, at that time, there appears to be a gap or conflict in the operation of existing bodies, the province should consider whether a new agency is required.

Should the province subsequently determine that a new agency is required, we would recommend the creation of an independent, non-partisan advisory body (as in the education sector). At arms-length, and outlasting any one government's mandate, this body can offer a system-wide perspective, as well as examining or monitoring local experience; provide advice on standardized performance management frameworks; research, develop and identify local and international best practices that can be adopted; undertake benchmarking versus other jurisdictions (e.g., system and provider efficiency); and provide a mechanism for transparency through regular reporting. This body could have a full-time chair and permanent body of staff, and be composed of representatives of health care providers, health policy experts and other stakeholders in the health care area, including members of the public. This would be a high level advisory body providing advice on the performance of the health care system.

However, the Panel is concerned with the additional bureaucratic and transition costs of creating a new agency given the number of new health bodies established very recently. Further, at the national level there are already a number of organizations to monitor health care and to assess new technologies and drugs. There are certain benefits to having multiple agencies in the same field, such as a division of function and the removal of areas of potential conflict from the mandates of each agency. For example, the agency that gives advice on reforms can be separated from the body that assesses those reforms. However, given the proliferation of new bodies in the health care sector, we recommend that the province endeavour to rely on its current agencies to fulfill the functions described above. The health care system needs a period of stability to determine how well these bodies operate.

(61) We recommend that the province enter into multi-year performance agreements with various provider groups with funding for the groups tied to mutually agreed upon benchmarks. By entering into agreements with groups of institutions, community service providers or other providers, the province could reduce the "silo" effect of a lack of integration of service provision.

Such agreements would clarify the lines of accountability of all parties and provide a means for setting public objectives, allowing flexibility for providers and increasing integration. For example, performance agreements could aid in addressing issues related to the integration of long-term care and home care services with hospital care. These issues are increasing in importance given the aging of the population. Commitments under the agreements must be made over a sufficiently long period of time that parties have the stability needed to both make and be held accountable for decisions.

Funding under the performance agreements should vary according to the type of provider. We do not recommend a specific form of funding. However, the province should consider a form of volume-based funding 'corridors' for hospitals or groups of hospitals. The funding could be tied to outcomes that are compared to benchmarks for each hospital's source population. Further, hospitals could be permitted to compete to offer services that are best provided at a high volume in fewer institutions.

In the primary care area, these agreements could be formed with groups of physicians and could employ a weighted capitation method of payment. Group practice has a number of benefits, such as access to 24/7 service provision through the group rather than emergency rooms, closer integration of a range of expertise and better accommodation of a range of lifestyles for practitioners. The province currently has a capitation system for some primary care groups with some weighting for age and sex. Capitation can create incentives for physicians to focus on the long-term health of patients since, in the future, health care will likely focus more on prevention than treatment. However, it can also lead to "cream skimming" in selection of patients because physicians will receive the same payment for the treatment of all patients of a given age or sex, regardless of the existence of underlying conditions that require more expensive treatment. The province should consider increasing the range of weights for capitation, such as for various types of long term illnesses, in order to ensure fairer payments to physicians and to reduce any incentive to "cream skim" patients who are less costly to service. These payments could be based on outcome measures under the performance agreements in order to allay concern that the capitation system could result in underservicing. Further, and as is currently the case in Ontario, capitation payments should be blended with fee-for-service payments for some services and bonuses for meeting targets for others (such as preventative services). Finally, in order to ensure flexibility for and acceptance by physicians, the blended capitation system should be voluntary and the province should maintain its system of employing a variety of forms of payment including fee-for-service.

(62) We recommend that the federal and provincial governments continue to work together and expand on joint initiatives to improve the collection and dissemination of health information, subject to appropriate safeguards for privacy. These initiatives to improve information should:

- *focus on the definition and timely collection of data on quality of care, health indicators (patient outcomes), accessibility of care and overall system performance;*
- *develop information that individuals would find valuable for making health care choices, such as information on waiting lists by institution and information about individual physicians (such as waiting lists, volume of various procedures and outcomes);*
- *develop better information for practitioners to use in the provision of care, such as care paths, drug interactions and prescribing patterns; and*
- *ensure that such information, along with general health information, is readily available to Ontarians through sources such as the internet, electronic health records or Telehealth.*

The province will not be able to monitor changes in health care quality and foster continuous improvement without better measures of outcomes. Outcome measures are also necessary if the performance agreements are to be an effective accountability mechanism. Absent such measures, the province will be forced to rely on purely qualitative measures. The outcome measures should be based on existing outcome measures in other jurisdictions (recognizing there are no perfect measures) and adjusted through the monitoring of agreements and the development of new measures. As well, better information must be made available to doctors to allow them to assess their own performance relative to their peers and to learn about more effective practices. This information would also allow patients to make more informed choices about providers.

One proposal to improve the availability and quality of health information in Ontario is the establishment of personal electronic health records for all individuals. Personal electronic health records can provide a systematic record of each interaction between an individual and the health system. Authorized providers can access the records at any time and the records can be linked to clinical support tools and information databases. The potential benefits include improved diagnosis and treatments as well as greater efficiency (such as fewer needlessly duplicated tests). The greatest challenge from these records is the issue of privacy and the province would have to put in place measures to ensure privacy of individuals.

The province should also provide information that can be used by individuals to assist in making informed health care choices. Such information may include reports about waiting lists by institution and data about individual physicians, such as waiting lists, volume of various procedures (since there is some evidence that higher volumes are tied to better outcomes) and health outcomes. Further, the province should ensure that such information, along with general health facts, is readily available to Ontarians through such sources as the internet or Telehealth. Such detailed information is vital if individuals are to be able to exercise individual responsibility on health issues.

(63) We recommend that the province establish an independent, non-partisan taskforce to explore demand-side incentives within the context of increasing revenue needs, rising expectations of the system and recognition of the potential distributional impacts of such incentives.

Improving information, instituting supply-side incentives and imposing a governance structure will take the province some distance in addressing the numerous health care challenges we have identified here. However, the escalation in health care costs will require additional measures to ensure that high quality, accessible health care does not swamp all other government priorities. One area of burgeoning cost that bears consideration is the demand side of the health care equation; that is, the use, and potential overuse or misuse, of the health care system by Ontarians. It will be difficult, perhaps even impossible, to reduce inefficient use of health care while ensuring that beneficial use is not deterred. The greatest risk in this calculus is to low income Ontarians. However, there are promising models to explore. For example, tax-based schemes can use the existing income tax regime to allocate costs for health care use. Use of the tax system both lowers the administration costs of the system and makes it easy for the government to exempt low-income families from payment. If the province is to control health care costs, it must invest resources in a process to determine how to constrain public demand and expectations of the system.

As international experience shows, there is no one perfect structure. All systems are experiencing stress and rising costs and face daunting challenges. Nevertheless, Ontario must take steps to improve its mix of institutions and incentives and build a framework capable of a sustainable health care network. Given the state of knowledge in the health care system, the framework must be capable of recognizing and making needed adjustments over time with a view to continuous improvement.

PART IV GETTING FROM HERE TO THERE

A. *Moving in Stages*

Ontario faces difficult choices in the coming years. The mandate of the Panel was to look ahead 10 to 15 years to determine the role of the provincial government in the face of new challenges and opportunities. Therefore, we would emphasize that this report should be seen as identifying destinations the province should aim to reach over time. Some of our recommendations should be implemented in the near term to overcome immediate risks to the province and set the foundation for the vision we have articulated; others can be phased in over time. For example, as we have noted, the province should begin immediately to strengthen ECEC through the extension of senior kindergarten into a full-day program, followed by junior kindergarten, and the implementation of a universally accessible ECEC program for children from age three to kindergarten. As well, the province should act immediately to develop a plan to deal with coordination issues surrounding land use planning and transportation to prevent irreversible decisions related to urban sprawl.

In addition, the move to a more efficient tax system will involve higher taxes for some—the recipients of unjustifiable preferential tax treatment—and lower taxes for others—those currently subsidizing the recipients of preferential tax treatment. Our recommendations for tax reform are designed to correct the perverse incentives existing in the present tax regime and should be implemented over a number of years in order to reduce the immediate economic impact on groups losing preferential tax treatment.

The benefits of the human capital focus for some individuals may take some time to develop. For example, we have recommended moving towards greater use of active labour market adjustment policies and away from income transfers, such as unconditional welfare payments. Because there are some people who will not be able to take advantage of the adjustment policies, and because the benefits of these policies will take time to materialize, the province must continue to rely on income transfer programs to some extent. Further, we recommend phasing-out industrial and regional economic development subsidies; the province must play a role in aiding individuals in these communities and industries to making the transition to areas that are economically viable.

B. *Fiscal Feasibility*

Recognizing that some of our recommendations involve significant new expenditures by the provincial government, we sought to ensure that our recommendations were fiscally sustainable. As a result, we engaged Professors Jack Mintz and Thomas A. Wilson of the University of Toronto to assess the fiscal feasibility of our recommendations. Mintz and Wilson's fiscal assessment is included in our collection of research papers. It is based on the Ministry of Finance estimate that, fully implemented, the total cost of the Panel's new spending initiatives would be about $2.7 billion per year. Specifically, the Panel's recommendations entail increased annual spending on post-secondary education of $1.3 billion and increased spending on kindergarten and high school education of about $1.1 billion. Other spending initiatives include a child care subsidy, costing about $150 million, and a rent subsidy for low income persons, also costing about $150 million. Mintz and Wilson took into account in their calculations the cost savings measures in our recommendations, such as phasing out subsidy programs. Further, they predict that a number of our suggested tax reforms will increase work effort and economic efficiency and will generate increased income and hence higher tax revenues. However, it should be noted that these projections do not take into account the impact of other cost saving and accountability measures we have recommended, such as increased use of private sector delivery arrangements (e.g., public-private partnerships and privatization).

Mintz and Wilson found that the Panel's recommendations can be implemented over time in a fiscally responsible manner, taking into account inflation and the growth of the relevant demographic age groups. Their economic projections indicated that the Ontario budget deficit will be gradually reduced over the next few years, with a modest surplus achieved by 2008, allowing for the full implementation of our major expenditure recommendations. The surplus permitted Mintz and Wilson to design a package of tax reforms, such as lowering rates and broadening tax bases to ensure that Ontario's tax system is more efficient and remains internationally competitive. Overall, Mintz and Wilson concluded that:

- The net effect of the Panel's spending recommendations on the Ontario budget would be about $2.7 billion (in current dollars).
- The Panel's recommendations (with the exception of the measures which reduce the deficit) should not be implemented until the current budget deficit has been brought under control.
- The Panel's other spending recommendations can be phased in over a four

to five year period, beginning with the 2006-7 fiscal year (Table 2).

- There is room for tax reductions to be phased in beginning in 2007-8.
- Over the medium term, there will be sufficient 'fiscal room' to accommodate the full implementation of the Panel's recommendations.

Table 2: Potential Surplus with Revenue Raising and Expenditure Initiatives ($ Millions)

	Status Quo Budget Balance	Revenue Raising Measures[a]	Expenditure Initiatives[b]	Projected Surplus
2004-5	-2,361	0	0	-2,361
2005-6	-551	0	0	-551
2006-7	1,158	1,259	798	1,619
2007-8	2,855	1,475	1,605	2,725
2008-9	4,598	1,576	2,395	3,779
2009-10	6,502	1,353	3,089	4,767
2010-11	8,492	1,371	3,166	6,697
2011-12	10,129	1,430	3,245	8,314
2012-13	11,585	1,498	3,326	9,757
2013-14	13,083	1,571	3,409	11,245
2014-15	14,504	1,641	3,495	12,651
2015-16	15,903	1,710	3,582	14,031
2016-17	17,175	1,782	3,672	15,285

Jack Mintz and Thomas A. Wilson, "Assessing Expenditures and Tax Reform Measures: A Review," (Research Paper No. 50, Panel on the Role of Government, February 2004).

a) Revenues gained from eliminating tax subsidies and credits are indexed by corporate profits.

b) These expenditures do not include proposed tax reductions. Expenditure initiatives are indexed by 2.5% per year to allow for inflation and demographics.

The result of this fiscal feasibility study satisfies our concerns regarding the province's ability to implement the ambitious human capital agenda we have recommended. Accordingly, we believe that were our public leaders to embrace this agenda, fiscal barriers would not constitute a binding constraint on the province's realization of many of the benefits that derive from investing in our people.

* * * * *

Over our province's magnificent history, we have confronted challenge after challenge with decency, with determination, and with imagination. We have built, and then rebuilt in response to changing conditions, our industrial foundations so that Ontario's industries offer its citizens opportunities for prosperity and material comfort. We have crafted a social democratic state that strives to provide compassionate support and protection to our citizens in times of poverty, disease and other hardship. We have sought to raise up our citizens through education, training and employment. Finally, we have forged a society that is, and continues to be, built on wave after wave of peoples who have come to Ontario from all corners of the world and who have enhanced the diversity, vibrancy and prosperity of our province. In short, our history has been one of bold and continuous renewal in the face of challenges that have fractured other societies, but have fortified ours.

The blueprint we have developed offers our leaders and citizens yet another opportunity for renewal. Although one cannot minimize the political and social challenges that inhere in adopting the program we have sketched, we are firmly of the view that the benefits of this human capital agenda will yield riches that far eclipse the short-term adjustment costs that will be sustained. To achieve this program, the province will have to be sensitive to those citizens who will bear disproportionate costs in the transition to a new set of policy priorities and institutional arrangements. It will also require broad public understanding of the reasons for these transitions and for the costs that are entailed. But, finally, and by no means least importantly, it will require inspired public leaders, both elected and otherwise, to call on their reserves of courage, principle, and imagination so as to be able to provide the leadership that will build public confidence and trust in the course we have charted.

We believe that our province is uniquely situated to embrace the many challenges and opportunities posed by a world that is changing rapidly around us. The answer that we provide to these challenges, and the way in which we respond, is of fundamental importance for Ontarians, both present and future. We must work to craft a new and durable social consensus in favour of investing in our province's remarkably diverse people. We close therefore by inviting our leaders to take up this challenge, and to allow Ontarians to deepen their capacity to pursue the kind of lives that they have reason to value. The citizens of Ontario deserve no less.

LIST OF RECOMMENDATIONS

PART II FOSTERING A HUMAN CAPITAL SOCIETY

A. Strengthening Education

(1) *We recommend that senior and junior kindergarten be made full day, with lunchtime supervision included. These programs would be phased in over time, as resources permit, initially beginning with full day senior kindergarten, followed by full day junior kindergarten. These programs should be free of charge and non-compulsory. Schools may charge parents for use of complementary services, such as after school care, but we recommend the provision of provincial funding for complementary services to ensure that these programs are available to all families.*

(2) *We recommend that the Ontario government provide funding to permit the development of a network of affordable, high-quality ECEC services below kindergarten age, possibly pursuant to a newly developed provincial children's agenda. These services would be phased in over time, as resources permit, initially beginning at age three with the option of moving downwards to provide care to younger children if warranted. The funding of these various services should come from a combination of public and private financing, with a sliding scale under which people with higher incomes pay more. Further, the public money should be tied to a facility's ability to attract and retain children.*

(3) *We recommend raising the age at which students can leave school or other forms of training from 16 to 17, and perhaps subsequently 18, unless they graduate first.*

(4) *We recommend that the province re-introduce external curriculum-based exit exams for high school graduates as part of an expanded package of outcome-oriented performance indicators. These indicators should be relevant to parents, students and employers.*

(5) *We recommend a series of reforms to primary and secondary school governance arrangements:*

- *The province should continue to set overarching curriculum and general policy directions.*
- *The province should revitalize school boards in order to ensure there is an effective intermediary body between the province and individual schools. School boards are currently far too distant and unresponsive to stakeholder concerns —few people know who their trustees are or understand what they do.*
- *School trustees should have higher salaries to reflect their new responsibilities.*

- *The province should explore an array of alternatives for the appointment and election of trustees to ensure greater accountability to a broad range of stakeholders.*

- *Boards should play a key role in the coordination of the actions of schools in their jurisdiction, aiding these schools in continuous improvement by sharing information and best practices and providing flexibility for schools to adapt to local preferences.*

- *Every public school should be required to have an active school council with a clear mandate. The school council should be comprised of the school principal and parent and stakeholder representatives.*

- *Schools should enter into three-year performance agreements with their school board using a standardized set of criteria to ensure that school leadership is held accountable against mutually agreed upon goals. These criteria would be developed by the third party body, discussed below.*

(6) The majority of the Panel recommends that the province accord to parents, on a trial basis, the ability to initiate a limited number of charter schools within the public school system. In accordance with the principles of universal access, there must be no additional private fees for attending any schools initiated under this pilot program.

(7) We recommend that the province create or extend the authority of a third-party or independent body to monitor the functioning of the educational system, including ECEC programs, the Boards of Education and the schools. Membership in this body would be drawn from stakeholders and from persons with a broad range of relevant professional expertise. The design of this body would take into account the potential for conflict of interest that can arise when a single body is vested with both standard setting and auditing functions.

(8) We recommend a five-part plan to promote excellence in, and to ensure and enhance accessibility to, post-secondary education:

- *The province should increase the amount of public money spent on university education until its spending is, on average, the highest per capita in Canada on a per student basis given the leadership commitment the province should make to human capital development.*

- *The province should tie the amount of additional public funding for each college or university program to performance, based on balanced measures such as student satisfaction, post-graduation success in the labour market, the quality of teaching and research, and performance improvement plans. Assessments for the performance-based funding should be made by an independent expert body.*

- *The province should benchmark its funding of our most promising academic/ research programs against comparable programs of international prominence in pinnacle public institutions so as to guide public investments in Ontario's programs once we have achieved a leadership position in Canada with respect to government support for universities.*

- *The province should deregulate tuition fees subject to every university and college governing council demonstrating that they have a credible access program in place. The province should require each governing council to make a public report to the government every three years on the effectiveness of its access program.*

- *The province should institute a comprehensive income-contingent loan repayment program. As well, the province should institute a separate enhanced grant and loan program that is aimed specifically at increasing the participation of individuals from lower income backgrounds in post-secondary (college and university) learning and should provide periodic public evaluation of measurable progress towards meeting this goal. Both of these programs should be devoted to ensuring that accessibility to education opportunities, the cornerstone of a human capital society, is maintained and promoted, in the context of deregulated tuition fees.*

(9) We recommend that Ontario enter into a Labour Market Development Agreement with the federal government.

(10) We recommend that the province continue efforts to promote appropriate integration of colleges and universities in order to foster choice in education.

(11) We recommend that Ontario increase its use of Active Labour Market Adjustment Policies (ALMAPs) aimed at helping workers adjust to change. In particular, the province should develop policies for the provision of extensive labour market information on such factors as shortages and surpluses in particular labour markets. It should also invest more in ALMAPs, although it should not necessarily deliver them. Further, we recommend that Ontario conclude an agreement with the federal government to devolve the power to design and deliver training and labour market adjustment policies under employment insurance legislation. Finally, as not all individuals will be able to benefit from ALMAPs (for example, they may be too disabled to work), and because it will take time to develop these programs, the province must continue its traditional income-support regime.

(12) We recommend that the province ensure that Ontario's self-regulatory bodies address the challenge of provincial recognition of the foreign credentials of immigrants. To this end, we recommend that the self-regulatory bodies be required to submit an annual progress report to be tabled in the legislature. In some cases, the province may also build on existing bridging or upgrading programs to involve employers, community groups and other stakeholders in the design of transitional programs to aid immigrants to enter the labour market.

(13) We recommend that the province, in conjunction with the federal government, eliminate barriers to individuals who seek to leave welfare and to re-join the workforce, by reducing high marginal effective tax rates (such as benefit clawbacks) for these individuals. The province should negotiate with the federal government to redesign the National Child Benefit program as well as federal and provincial tax credit regimes to reduce the disincentive to work.

B. Revitalizing Cities

(14) We recommend that the province develop appropriate fiscal arrangements to redress imbalances between revenues and responsibilities for Ontario's major cities.

(15) We recommend that the province identify new revenue sources for municipalities. These could include a locally set fuel tax used in part to fund public transit, a hotel and motel occupancy tax and increased use of user fees that reflect the true cost (including the environmental cost) of water, sewage disposal and garbage collection.

(16) We recommend that local governments assume full control over (and responsibility for) setting property tax rates. However, we recommend that the province limit variability between residential and non-residential property tax rates, such as by establishing tax rate bands, to moderate both the variability among municipalities and the impact of shifting tax burdens between residential and non-residential property classes.

(17) We recommend that Ontario enhance the powers of the Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA) in order to encourage municipalities to make greater use of debt for long-term capital projects. OMEIFA should assist municipalities seeking aid in sourcing capital.

(18) We recommend that Ontario develop a flexible approach to municipal jurisdiction. A number of the Panel's members agree that this flexible approach may mean new levels of region-wide coordination that could include special purpose authorities (such as for coordination of transportation and land use) or governance structures (such as regional government). This approach should be based on the following principles:

- *accountability and responsiveness of municipal governments;*
- *transparency;*
- *fairness of the cost burden;*
- *capacity for the coordination of services; and*

- *respect for the role of non-elected public officials and clarity about the roles of politicians and staff*

We strongly recommend that the province commence the process of addressing this coordination issue immediately.

(19) We recommend that the province review municipal governance structures with a view to improving accountability and efficiency in larger cities. Areas for reform include the strengthening of executive powers and of the accountability of municipal officials (elected and non-elected) to the public through a clear demarcation of responsibilities, decision-making power, performance goals and greater transparency.

(20) We recommend that Ontario, in full consultation and partnership with the mayors of its major cities/city regions, work quickly to negotiate and conclude a specific federal-provincial immigration agreement, as the federal government has done with other provinces. The accord should include a Provincial Nominee Program under which the province participates in the selection of immigrants. Further, the accord should attempt to procure federal settlement funding for Ontario that ensures levels, on a per immigrant basis, that are comparable to similar programs in Quebec. It is also our view that Ontario should clarify the roles and funding of the levels of government in settlement and seek greater control over settlement programs. Finally, Ontario should attempt to shift the focus of settlement programs beyond the initial stages of immigration towards confronting and resolving those barriers arising in the medium and longer term that impede full integration of immigrants into Ontario's economy and society.

(21) We recommend the following to address the infrastructure gap facing Ontario's municipalities:

- *The province and municipalities should coordinate to produce medium and long-term multi-year plans for infrastructure investment with interregional elements.*
- *There should be greater coordination of regulatory requirements for infrastructure programs at the federal, provincial and municipal levels of government (such as in the environmental area) to foster timely investment and long-term planning.*
- *The province should implement strong guidelines and incentives to control urban sprawl, including the restriction of development to designated settlement areas, better use of development fees, increased incentives for brownfields development, support for public transit and greater integration of land use and transportation decisions.*
- *The province and municipalities should employ user fees for water and sewers, in order to more accurately reflect the costs, including the environmental consequences, of such infrastructure.*

- *The province should ensure that development charges are more efficiently priced.*
- *The province should empower municipalities to levy fuel taxes and create the tax room to do so. Ideally, revenue from the fuel tax should, at least in part, be applied to the cost of public transit.*

(22) We recommend that the province take immediate action to address the urgent needs of a growing number of homeless Ontarians. The province must redouble its efforts to work with the federal government and municipalities in order to implement the existing national plan for affordable housing. This program should respect the incentives created for both tenants and developers to ensure that the stock of affordable housing is increased. Such action requires both demand-side (i.e., tenant) and supply-side (i.e., developer) initiatives.

(23) We recommend that the province step up efforts to meet the physical and mental health needs of the homeless. This includes more extensive hospital and community-based mental health support, access to addiction services, and the establishment of a larger reserve of transitional and supportive housing for persons with mental health and addiction problems.

(24) We strongly advise against the reintroduction of rent-controls.

C. Enhancing Civic Engagement

(25) We recommend that the province build on educational programs to instill in Ontario's youth an appreciation for, and commitment to, community and public service. These programs can be tied to the civic engagement programs currently in place in the school system, described below, and could include lecture series by community leaders, placements or pro bono work with community organizations and a core curriculum based on the value of community and public service. These programs should be targeted to elementary and secondary school students and should be voluntary. These should be in addition to the current requirement that every student who begins secondary school must complete a minimum of 40 hours of community involvement activities in order to graduate.

(26) We recommend that the province revitalize the committee system in the provincial legislature so as to enhance the spectrum of political views given voice in the development of legislation and regulations.

(27) We recommend that the province build on its successful program for civic education in primary and secondary schools and extend the program to immigrants.

(28) We recommend that the province strengthen its mechanisms for disseminating accessible and useful policy information to the public. This would include the dissemination of information via provincial freedom of information legislation, with appropriate attention given to legitimate

privacy concerns. As addressed in the discussion on Smarter Government, below, we also recommend increasing the accountability and information mechanisms surrounding the use of private actors in the provision of public services.

(29) We recommend that the province continue to expand its use of information technology in providing access to information for citizens.

(30) We recommend that the province use caution with respect to internet voting as one method in a multi-channel approach to civic engagement. The government must ensure that security and reliability concerns and the varied distribution of internet access are addressed.

(31) We recommend that direct democracy be used only where fundamental changes to the nature of Ontario's institutions, such as changes akin to constitutional decisions at the federal level, are being contemplated. Further, if referenda are to be used, we recommend that the province carefully structure the process so that it promotes informed, reflective and deliberative decision making by voters.

(32) We recommend that new forms of deliberative democracy, such as citizens' juries, play only a limited, well-defined and supplementary role in decision making. The province must be attentive to the issue of fair representation of all Ontarians in any such use of new forms of deliberative democracy.

(33) We recommend that prior to change, the province consult Ontarians on a wide range of potential reforms to representative democracy, such as:

- *changing the electoral system to some form of mixed member proportional representation,*
- *revising municipal government (e.g., two-tiered government),*
- *reform of the legislature (e.g., the committee system),*
- *increasing the use of referenda or deliberative mechanisms, and*
- *campaign finance reform.*

PART III MAKING HARD CHOICES

B. Fiscal, Economic and Environmental Policy

(34) We believe that Ontario should focus tax reform on enhancing the human-capital society and making the system more efficient. A number of principles should guide Ontario tax policy, such as:

- *tax rates should be competitive at both a national and an international level in order to attract and retain mobile factors of production, like capital and skilled labour;*
- *tax rates should be neutral across sectors of the economy, creating a broad tax base;*
- *the tax system should be transparent so that taxpayers can hold public officials accountable for their taxation decisions; and*
- *the tax system should be as minimally regressive as possible.*

We recommend that the province should explore a number of tax reforms over time, based on the above principles, paying particular attention to the following issues:

- *the competitiveness of Ontario's personal, corporate and capital tax rates;*
- *the personal income surtax;*
- *PST –GST harmonization;*
- *tax differentials between residential and non-residential property; and*
- *the use of benefit taxes and user fees, such as in the cases of transportation and infrastructure.*

(35) We recommend that Ontario seek a more transparent and non-discriminatory allocation of all federal transfers other than those received through the formal federal equalization program with a view to increasing Ontario's share of these transfers. This may involve a shift to per capita federal funding for certain programs across all provinces (such as equal per capita funding of immigrant settlement programs).

(36) We recommend that the province make existing subsidy programs more transparent and, over time, phase-out most industrial subsidy programs.

(37) We recommend that the province continue its role in assisting regional stakeholders in the identification and dissemination of information regarding new economic opportunities through initiatives like the Ontario Competitive City Regions Partnership. However, such initiatives should not be focused on generating wish-lists of investments or expenditures by other levels of government, beyond basic infrastructure and public services, and basic and applied research.

(38) We recommend that the province focus its economic development policy on broad-based tax relief and tax reforms, public investment in basic infrastructure, public investment in basic and applied research (including the commercialization of research) as exemplified by the Ontario Research and Development Challenge Fund, and on the promotion of education and skills development through investment in life-long education and its requisite institutional anchors, such as schools, universities, colleges and cities.

(39) We recommend that the province ensure that those choosing to live in at-risk communities have access to strong public institutions, such as regional health centres, schools and community colleges, that offer comparable core services to metropolitan centres. However, the province should phase out regional economic development programs, such as the provision of subsidies and tax incentives to businesses, which risk promoting permanent government- induced dependency.

(40) We recommend that the provincial government play an important role in providing young people and workers with regional labour market information, such as job-search and training program assistance, enabling them to make fully informed choices regarding future employment prospects. The province, in co-operation with the federal government, should consider providing appropriate transitional arrangements, such as those aimed at retraining for those willing to pursue opportunities beyond their home community.

(41) We recommend that the province adopt mandatory cost-benefit analysis as a feature of its promulgation of environmental regulations in order to facilitate better regulatory decisions by ensuring that the regulations are necessary and appropriate. In order to allay fears that a cost-benefit analysis may lead to a lack of regulation because of the inability to measure costs or benefits, the cost-benefit analysis should take into account both quantifiable and non-quantifiable costs and benefits (such as equity in the distribution of environmental risk). The development of such analyses should involve stakeholders and the results should be available to the public in order to enhance deliberation and restrain disproportionate influence by interest groups.

(42) We recommend that the province rely to a greater extent on market-based instruments for regulating environmental issues. The instruments include environmental taxes on emissions and user fees (such as on water and sewer use), both of which force individuals to confront the costs of environmental harm and consumption. Further, the province should continue to work towards use of marketable pollution permits, such as in the area of air pollution. However, the province

must also take account of the accountability and democratic issues surrounding these instruments.

(43) We recommend that the province build on the existing tools for providing information to the public on environmental issues. The province should expand on its program for obtaining and disseminating information on emissions from particular facilities (such as under the air emissions and reporting regulations) and on the information provisions of the Environmental Bill of Rights. However, the province should review the content of, and the manner in which, the information is disseminated, taking into account, for instance, that individuals may overreact to information on environmental issues in instances when the risk is quite small and that individuals may find it difficult to understand, access or use this information.

(44) We recommend that the province articulate a clear and consistent policy for a reliable, competitively priced, fiscally prudent and environmentally sound electricity system.

(45) We recommend that the government make the option of market-based pricing, with peak and off-peak rates, available to all electricity consumers to promote conservation and consumption shifting, being sensitive to the impact of such pricing on low-income users. Market-based pricing (as in natural gas, oil and gasoline) should also be pursued because taxpayers should not subsidize electricity consumption and production. We believe that such pricing will also make it more economically feasible to invest in renewable generation facilities, such as wind, biomass, and solar power, in the province.

(46) We recommend that the province adopt measures to encourage greater private sector investment in the electricity sector in order to harness effective capital market scrutiny of generation investment. While we have differing views regarding the desirability of privatizing Ontario Power Generation, we believe that the private sector has an important role to play in the promotion of a competitively priced market for electricity supply and in diversifying risk rather than relying on decisions by a single dominant supplier. Creating such an environment will necessitate a reduction of OPG's dominant position, irrespective of whether the company is publicly or privately owned. The province must also work to streamline and harmonize regulations between other governments where significant regulatory overlap exists, such as environmental assessments, to facilitate the construction of new generation facilities.

(47) We recommend that the province undertake a comprehensive review of the costs, including the environmental and health costs, of different fuel sources so that these sources may be priced to reflect these costs. We further recommend that the results of the review be made widely available to the citizens of Ontario. With such information consumers should have the option of paying higher prices for renewable generation, if they wish to do so. We believe that such a review, in conjunction with market-based pricing and increased private sector participation, will serve as a strong impetus for promoting a more diverse supply mix and expanded use of renewable generation in Ontario.

(48) We recommend that the province work with the public and stakeholders to develop a plan for transmission grid maintenance and expansion, including the exploration of increased linkages with Quebec, Manitoba and neighbouring U.S. states. The province must also work to streamline and harmonize regulations between other governments where significant regulatory overlap exists, such as environmental assessments, to facilitate the construction of new transmission infrastructure.

C. Smarter Government

(49) We recommend that the province adopt a mandatory, broad-based form of cost-benefit analysis when contemplating future regulation in order to facilitate better decision making. To increase transparency and fairness, such analysis should involve stakeholders. As advocated in Recommendation 41, the results should be made available to the public to enhance civic engagement in the development of public policy. The cost-benefit analysis should also encompass both quantifiable and non-quantifiable factors, such as equity in the distribution of risk.

(50) We recommend that the province, to the extent feasible, identify and employ incentive-based forms of regulation, such as the user fees discussed for water and sewer use and tradable pollution permits. In addition, we recommend that regulated parties pay their fair share of the province's costs of regulation (such as the costs of the approval process and enforcement).

(51) We recommend that the province also work to streamline and harmonize regulations between other levels of government where significant regulatory overlap exists, such as environment assessments.

(52) We recommend that the government continue to pursue performance measures for ministries, agencies, and the broader public sector. In order to be effective, the performance measures should be consistent across the public sector and thus amenable to meaningful comparisons between public sector entities over time. Further, clear outcome measures that are relevant to consumers of public services should be developed. Performance results should be supplemented with further evaluation when there is uncertainty regarding the effects of a government program, such as whether it led to the results observed, and when the program fails to achieve the desired results.

(53) We recommend the continued use of information technology for the dissemination of information on public programs to enhance transparency and accountability.

(54) We recommend that Ontario develop a more deliberative approach to evaluating government performance, using cost-benefit analysis, with broader deliberation involving the public and stakeholders.

(55) We recommend that Ontario pursue further use of the private sector (both for-profit and not-for-profit sectors) in the delivery of public services through contracting out, P3s, privatization and deregulation. So long as effective public accountability mechanisms are in place (which ensure fidelity to public concerns), private for-profit and not-for-profit providers should be able to compete for the delivery of many public goods and services.

(56) We recommend that the province adopt an independent review process to monitor its service delivery arrangements with the private sector in order to ensure that these arrangements provide demonstrable benefits over traditional public sector delivery. To increase transparency, the results of reviews should be made available to the public.

(57) We recommend that the province take the following actions to ensure that Ontario is able to attract, retain and motivate a high quality and non-partisan public service:

- *Adopt measures to enhance public regard for, and appreciation of, Ontario's public servants, such as initiatives designed to provide the public, media and politicians with a greater understanding and appreciation of the challenges public servants face and the contributions they provide.*

- *Develop improved compensation programs for public servants, including the continued use and development of performance-based pay systems. Improved forms of compensation will assist in the recruitment and retention of a high-caliber public service.*

- *Form effective partnerships with Ontario's educational institutions, including student employment programs and on-campus recruitment, as a means of attracting new, young recruits into the public service.*

- *Encourage employees to further their personal development through support for career-long learning, including support for individual learning; exchanges with private and broader public sector organizations; interjurisdictional contacts; and research sabbaticals/publishing. All of these initiatives will also contribute to enhanced policy development and program administration.*

- *Provide more resources for flexible forms of organizational structures and compensation plans in order to facilitate horizontal policy development and program delivery.*

- *Consolidate Ontario public service human resource functions into one entity to improve capacity, and invest in this entity responsibility for recruitment, retention, succession planning, knowledge transfer and career development.*

- *Support the public service in its critical roles of steward of the longer term and protector of the public good. Support can be in the form of resources dedicated to long-term planning, assuring appropriate knowledge transfer, greater emphasis on civil service innovation, and greater tolerance of risk taking and critical thinking.*

- *Revise and modernize the Public Service Act, including making provisions for matters relating to political neutrality, public comment and whistle blowing.*

- *Develop a definition of the future state of the Ontario Public Service in terms of its attributes, its profile and its role in supporting the government of the day and update the OPS common set of values in this context.*

(58) We recommend that the provincial government constitute a Strategic Planning Unit in the Cabinet Office. This entity would create policy making capacity at the centre of government, removed from the day to day operations of specific departments, and have a forward looking policy focus, mitigating the silo effects in government ministries and agencies and providing better integration of long-term policy initiatives. The Strategic Planning Unit would undertake a number of functions, such as reviewing government operations regarding the enhanced use of the private sector (both for profit and not for profit sectors) and adopting a framework for identifying and dealing with community restructuring for at-risk small, rural and remote communities.

D. Health Care

(59) We recommend that the province seek enhanced federal funding of health care for Ontario and all other provinces.

(60) We recommend that the province ensure that it has a framework in place to undertake the necessary policy and monitoring functions. These functions include:

- *Auditing the quality of health care services in the province, including the development of new systems and measures to allow more sophisticated assessment of the system's ability to provide high quality care, timely access, equitable, reliable and efficient service and to respond to unpredictable events;*

- *Providing recommendations on funding of and clinical practice guidelines for new technology (including treatments, equipment and drugs) based on the work of national bodies on the clinical and cost effectiveness of such technology;*

- *Developing frameworks for the performance agreements, discussed below; and*

- *Facilitating negotiations between the Ministry and the various provider groups.*

We are not recommending the creation of an additional intermediary body in the health care sector at this time given the number of new bodies that have recently been constituted. Rather, the mandate of, for example, the Ontario Health Quality Council could be expanded provided that conflicts between standard setting and auditing functions can be addressed. The province should assess the operation of the existing organizations in five years time and if, at that time, there appears to be a gap or conflict in the operation of existing bodies, the province should consider whether a new agency is required.

(61) We recommend that the province enter into multi-year performance agreements with various provider groups with funding for the groups tied to mutually agreed upon benchmarks. By entering into agreements with groups of institutions, community service providers or other providers, the province could reduce the "silo" effect of a lack of integration of service provision.

(62) We recommend that the federal and provincial governments continue to work together and expand on joint initiatives to improve the collection and dissemination of health information, subject to appropriate safeguards for privacy. These initiatives to improve information should:

- *focus on the definition and timely collection of data on quality of care, health indicators (patient outcomes), accessibility of care and overall system performance;*
- *develop information that individuals would find valuable for making health care choices, such as information on waiting lists by institution and information about individual physicians (such as waiting lists, volume of various procedures and outcomes);*
- *develop better information for practitioners to use in the provision of care, such as care paths, drug interactions and prescribing patterns; and*
- *ensure that such information, along with general health information, is readily available to Ontarians through sources such as the internet, electronic health records or Telehealth.*

(63) We recommend that the province establish an independent, non-partisan taskforce to explore demand-side incentives within the context of increasing revenue needs, rising expectations of the system and recognition of the potential distributional impacts of such incentives.

APPENDIX A: Terms of Reference

The mandate of the Panel is to examine the future role of government in the context of promoting economic growth, strong communities, fiscal responsibility and accountability.

The Panel is asked to make recommendations in the following areas:

- the role of the state;
- the nature of its role in making policy, regulations, setting standards, monitoring and reporting to safeguard the public interest;
- its appropriate lines of responsibility: what and how it should start doing, stop doing, or keep doing either on its own or in partnership with others;
- value of the Public Service;
- general principles for any non-tax revenue generation by government;
- opportunities for citizen engagement.

APPENDIX B: Panel Members

Ronald Daniels (Chair) is the Dean of the Faculty of Law, University of Toronto. He is currently on leave as a Visiting Professor at the Yale Law School. Professor Daniels' teaching and research interests include corporate law, securities and finance, mergers and acquisitions, and the role of law in developing countries. He is active in public policy formulation, and has contributed to several policy related task forces, including: Chair of the Ontario Task Force on Securities Regulation, member of the Toronto Stock Exchange Committee on Corporate Governance, Chair of the Ontario Market Design Committee (the Committee that was charged with the task of developing the market rules for the new Ontario electricity market), and he has most recently served as the Advisor to the Ontario Government on Public Accounting Regulation Reform. Professor Daniels is past-President of the Council of Canadian Law Deans and of the Council of Ontario Law Deans. Professor Daniels received his LL.B. from the University of Toronto in 1986 and his LL.M. from Yale University in 1988.

Jalynn H. Bennett, C.M., is President of Jalynn H. Bennett and Associates Ltd., a consulting firm in strategic planning and organizational development in both the public and private sector. She is a Director of The Canadian Imperial Bank of Commerce, CanWest Global Communications Corps., Sears Canada Inc., Cadillac Fairview Corporation Limited and Bombardier Inc. Mrs. Bennett has participated in many consultative initiatives with the public sector, working primarily in the areas of macro-economics, trade, tax policy, regulatory reform, pension reform and employment policy fields. She has previously served as a director of the Bank of Canada and Commissioner of the Ontario Securities Commission. Mrs. Bennett has also served on a number of Boards in the not-for-profit sector. She is a member of the Board of Trustees of the Hospital for Sick Children and a member of the Vanier Institute of the Family Investment Committee. Mrs. Bennett was made a Member of the Order of Canada in 2000. She holds a degree, specializing in economics, from the University of Toronto.

Peter Cameron is Chair and President of The Garfield Group, a management consulting company, operating in Canada, the U.S.A. and internationally. He has extensive experience in both the public and private sectors, as well as in community services. Major assignments have included Vice-Chair (Acting CEO), Diversey Corporation; Chair, Chromolox Inc.; CEO Canadian Corporate Management; Senior Advisor, A.T. Kearney Ltd.; Chair, Canada Post Corporation; Chair, Sunnybrook Medical Centre Institute and The Sunnybrook Foundation; member, Premier's Advisory Committee on OPS; and Commissioner, Ontario Education Improvement Commission. Peter Cameron is a recognized authority on military affairs. A retired Brigadier General, he is currently Co-Chair of Reserves 2000 and an advisor to the Minister of National Defence.

Anne Golden, Ph.D., C.M., is President and Chief Executive Officer of The Conference Board of Canada. Prior to this she served with the United Way of Greater Toronto for 19 years – the last 14 years as President. She has chaired two major task forces. In 1995, she chaired the Greater Toronto Area Task Force and published the "Golden Report" in January 1996. In January 1998, she was appointed Chair of the Homelessness Action Task Force, which released its report, *Taking Responsibility for Homelessness: An Action Plan for Toronto,* in January 1999 with 105 recommendations for all three levels of government and an action plan to solve homelessness. Dr. Golden's public policy and research experience includes a term as director of research for the Ontario Liberal Party, special advisor to the Provincial Leader of the Opposition, and research co-ordinator for the Bureau of Municipal Research. Dr. Golden has received recognition from a broad range of organizations including being appointed a Member of the Order of Canada by the Governor General in 2003. Previously, she taught at Newark College of Engineering, the University of Toronto, and York University. Dr. Golden holds a doctorate in history.

Jeffrey C. Lozon is President and Chief Executive Officer of St. Michael's Hospital. He has more than 20 years experience in leading large health care systems and academic health sciences centres in Canada. He joined St. Michael's Hospital in 1991 as Executive Vice-President and Chief Operating Officer. Mr. Lozon has led St. Michael's Hospital through a major financial and strategic turnaround, positioning the hospital as a model of fiscal responsibility, management and patient care. In March 1999, Jeff served on secondment for one year as Deputy Minister of Health and Long-Term Care, beginning the process of building a new accord among health care providers in Ontario. Mr. Lozon is a member of the Board of Directors for Canada's Top 40 Under 40 and the University of Guelph, and is Vice Chair of Canada Health Infoway which is responsible for the development of a Pan Canadian Electronic Health Record. He is an Associate Professor in the Department of Health Administration at the University of Toronto. Previously, he held faculty positions at the University of Alberta and the University of Saskatchewan. Mr. Lozon received a Masters in Health Administration from the University of Alberta and a Bachelor of Arts in Political Science from the University of Guelph.

Colin Andersen was appointed Deputy Minister of Finance in February 2004. In his previous position as Deputy Minister, Policy, Cabinet Office Mr. Andersen acted in an advisory capacity to the Panel as government liaison. Prior to Cabinet Office, Mr. Andersen served as Acting Deputy Minister, Associate Deputy Minister and Assistant Deputy Minister, Policy at the Ministry of Health and Long Term Care and Assistant Deputy Minister, Fiscal and Financial Policy Division, Ministry of Finance. He also has served as the province's official liaison to the Romanow Commission on the Future of Health Care in Canada and as the Ontario regional representative on the Board of the Canadian Institute for Health Information (CIHI). Mr. Andersen has a Master's Degree in Economics from the University of Toronto and an Honours Bachelor of Arts (Economics) from the University of Calgary.

APPENDIX C: Panel Staff

Research Director:
Michael J. Trebilcock graduated from the University of Canterbury in New Zealand in 1962 with an LL.B. and completed his LL.M. at the University of Adelaide in 1965. He joined the Faculty of Law at the University of Toronto in 1972. He was selected as a University Professor in 1990. Professor Trebilcock specializes in Law and Economics, International Trade Law, Competition Law, Economic and Social Regulation, and Contract Law and Theory. He has published numerous books and articles in these areas. He was a Fellow in Law and Economics at the University of Chicago Law School in 1976, a Visiting Professor of Law at Yale Law School in 1985, and a Global Law Professor at New York University Law School in 1997 and 1999. In 1987 he was elected a Fellow of the Royal Society of Canada. In 1999, Professor Trebilcock received an Honorary Doctorate in Laws from McGill University and was awarded the Canada Council Molson Prize in the Humanities and Social Sciences. In the same year (1999) he was elected an Honorary Foreign Fellow of the American Academy of Arts and Sciences. In 2002 Professor Trebilcock was elected President of the American Law and Economics Association.

Senior Research Fellow:
Andrew J. Green

Research Associate:
Roy Hrab

Research Assistants:
Brock Jones
Michael Kilby
Graham Mayeda
Jeffrey Novak
Sarah O'Connor

Administration:
Nadia Gulezko
Joanna Carson

Editor:
Kevin Doyle

APPENDIX D: Staff Report and Research Paper Series

All papers listed below are available on the Panel's website:
http://www.law-lib.utoronto.ca/investing/index.htm

Staff Report:

Creating a Human Capital Society for Ontario	Michael J. Trebilcock Ronald Daniels Andrew J. Green Roy Hrab

Research Paper Series:

RP(1)	The Landscape of Civic Engagement in Ontario	David Cameron
RP (2)	Ontario in the Information Era: Cohesion and Competitiveness	Thomas J. Courchene
RP (3)	Demographic Change and Public Policy in Ontario	David K. Foot
RP (4)	The Evolution of Government as Risk Manager in Canada	Andrew Green
RP (5)	The Great Social Transformation: Implications for the Social Role of Government in Ontario	Judith Maxwell
RP (6)	Information Age Government for Ontario	Jerry Mechling
RP (7)	Ontario's Future Prosperity: Issues, Changes and Recommendations	Jack Mintz William Robson
RP (8)	Change in the Ontario State 1952 - 2002	Graham White
RP (9)	Social and Economic Risks to Seniors	James B. Davies
RP (10)	Managing Labour Market Risk in the New World of Work	Morley Gunderson Michael Trebilcock

RP (11)	Social Risks for Newcomers to Canada: Issues Respecting the Role of Government in Ontario	Jeffrey G. Reitz
RP (12)	New Information Technology and the Public Sector in Ontario	Sandford Borins
RP (13)	The Future Role of a Professional Non-Partisan Public Service in Ontario	Kenneth Kernaghan
RP (14)	The Role of Benefit Taxes in the Health Care Sector	Mark Stabile
RP (15)	Accountability, Evaluation and Performance Monitoring: A Comparative Perspective	Bob Segsworth
RP (16)	Young Families, Social Risk and the Role of Government	Jane Jenson
RP (17)	Vibrant cities and City-Regions: Responding to Emerging Challenges	Enid Slack Larry S. Bourne Meric S. Gertler
RP (18)	Small, Rural, and Remote Communities: The Anatomy of Risk	Enid Slack Larry S. Bourne Meric S. Gertler
RP (19)	Edemocracy: Current Trends and Future Prospects	Ronald J. Deibert
RP (20)	Ontario Public Service - Human Resources Management	Monica Belcourt
RP (21)	Private Delivery of Public Services: Public Private Partnerships and Contracting-Out	Roy Hrab
RP (22)	Privatization: Experience and Prospects	Roy Hrab
RP (23)	Economic Deregulation of Network Industries: Managing the Transition to Sustainable Competition	Edward Iacobucci Michael Trebilcock Ralph Winter
RP (24)	The Future Role of Government in Supporting Early Childhood Education and Care in Ontario	Gordon Cleveland Susan Colley
RP (25)	Ontario's Kindergarten to Grade 12 Education System: Some Thoughts for the Future	Arthur Sweetman
RP (26)	Self-Regulation and the Protection of the Public Interest	Andrew Green Roy Hrab

RP (27)	Incentives, Public Goals and Environmental Contracts	Andrew Green
RP (28)	Community Participation and Multilevel Governance in Economic Development Policy	David A. Wolfe Tijs Creutzberg
RP (29)	The Role of Government in Post-Secondary Education in Ontario	W. Craig Riddell
RP (30)	Steering and Rowing in Health Care: The Devolution Option?	Colleen M. Flood Duncan Sinclair
RP (31)	Responding to Social Risk in Ontario: Are We There Yet?	Keith Banting
RP (32)	A Tax Strategy for Ontario	Richard M. Bird Thomas A. Wilson
RP (33)	Active Labour Market Adjustment Policies: What We Know and Don't Know	Morley Gunderson
RP (34)	The Equal Opportunity Society: Determining the Role of Government	Andrew Green
RP (35)	Democracy in Ontario	David Cameron Celine Mulhern Graham White
RP (36)	Renewal in the Centre: Working with Ontario's Federation Partners	Paul Boothe
RP (37)	The Culture Industry	Abigail Payne
RP (38)	Contracting and Partnerships in IT Services to Government	Sandford Borins
RP (39)	Revisiting Water and Wastewater Utility Privatization	Elizabeth Brubaker
RP (40)	Dilemmas of Evaluation, Accountability and Politics: Contracting Out Social Services in Ontario	Lorne Sossin
RP (41)	Electricity Restructuring: A Comparative Review	Michael Trebilcock Roy Hrab
RP (42)	Strengthening the Policy Capacity of Government	Donald J. Savoie
RP (43)	Human Resource Management	Susan Waterfield

RP (44)	Physical Infrastructure and Financing	Harry Kitchen
RP (45)	Benefit Taxes and User Fees in Theory and Practice	David G. Duff
RP (46)	Some Issues of Educational Governance	T. R. Williams
RP (47)	The Role of Government and the Government's Role in Evaluating Government: Insider Information and Outsider Beliefs	Rod Dobell
RP (48)	Governance and Accountability in the Ontario Health Care Arena	Carolyn Tuohy
RP (49)	Thoughts on the Fiscal Framework for Ontario's Industrial Development	Finn Poschmann William Robson
RP (50)	Assessing Expenditures and Tax Reform Measures: A Review	Jack Mintz Thomas A. Wilson